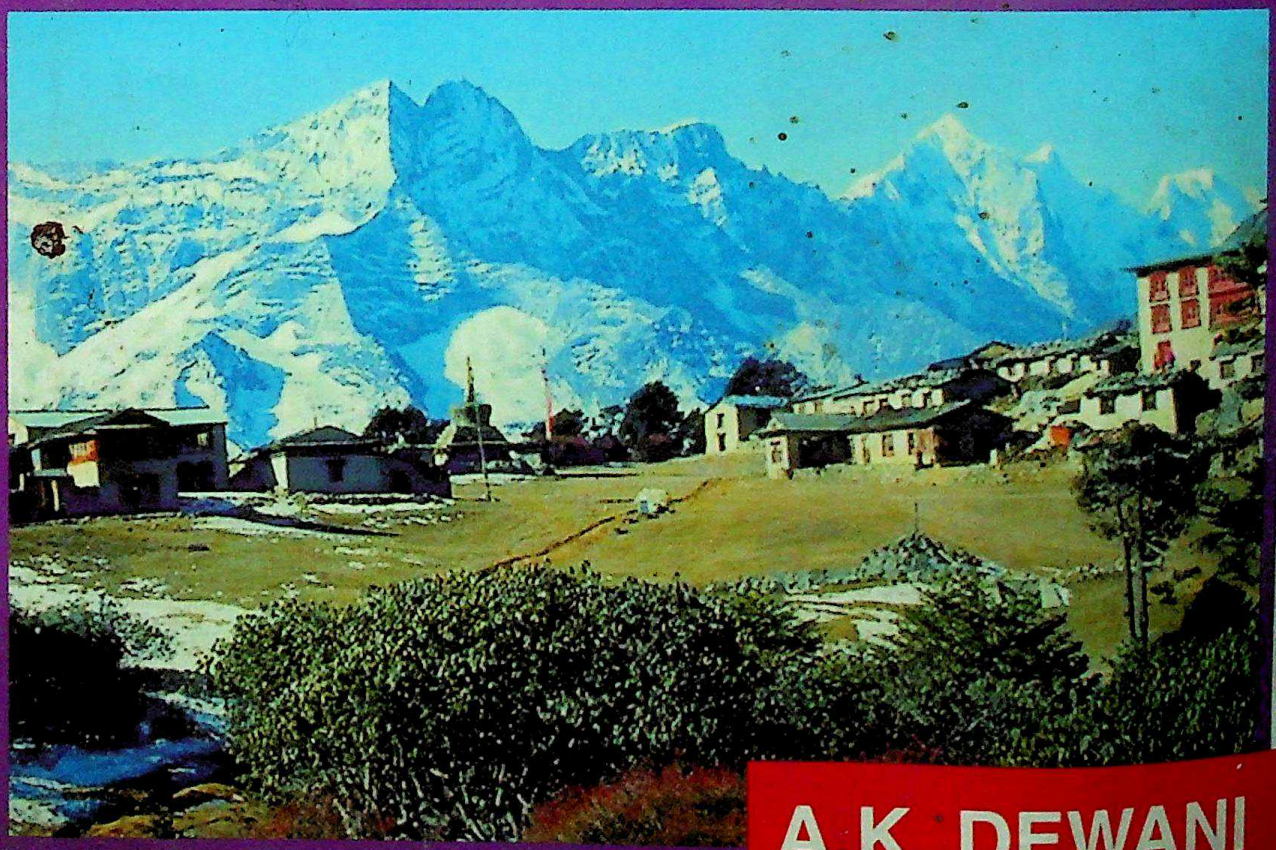
Gandhi Memorial College Of Education Bantalab Jammu

ELEMENTS OF STATE BUDGETING

With Special Reference to J&K



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ELEMENTS OF STATE BUDGETING

Respectfully presented to Shri Predumn Krishen Joseph Dhar, a friend and a guide.

27.07.06

By

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CHIEF SECRETARY
JAMMU AND KASHMIR

VIJAY BAKAYA,
IAS

FOREWORD

"Elements of State budgeting with special reference to the J&K State" authored by Shri A. K. Dewani is a good exercise aimed at providing maximum possible information with regard to a state budget, how it is compiled executed and eventually evaluated to assess cost of various programmes of a Government, generally grouped as governance, social upliftment and economic development. Provisions made in the Indian and J&K State Constitution relevant to the subject together with the rules and regulations made there under have been well documented. Features of the Indian fiscal federalism and how J&K fits into that constitutionally backed arrangement has been painstakingly described so that it is easily intelligible to a reader, whether a student, policy maker, an implementing agency, an auditor or an analyst of public finance. Mechanism of Finance and Planning Commissions to regulate devolution of resources from the Centre to the States on various accounts for various purposes has been well explained and supported by historical facts. Financial and other data relating to budget management drawn from various sources as tabulated and consolidation of the effect of recommendations all the twelve Finance Commissions appointed so far and related to the appropriate subjects is appreciable.

A State Budget is an important management tool for the Executive as also the Legislature. It provides information both in respect of accounts and forecasts in a manner so that its value is enhanced to appreciate goals set and how these are reached. The book explains in detail various methods adopted to accomplish this objective.

I know Shri Dewani for quite some time. As a dedicated officer of J&K State Accounts Service his contribution in different areas of financial management has been commendable. He continues to be a hardworking person even after his retirement from active service which is evident from this and other books authored by him. I appreciate his efforts.

(Vijay Bakaya)

Dated: 9th January, 2006

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Dedicated to my adored wife Krishna, who is no longer with me in her physical form but continues to be a source of inspiration

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PREFACE

I have worked with J&K government for a long period of about 37 years out of which, I was connected with various matters relating to state's budget formulation, its implementation and evaluation for about 20 years. After my retirement (March, 1997), I was advised by my friends to record experience gained by me in this field of management. I have accordingly worked on this subject and have been able to write this book, objectively designed to identify and explain fundamentals of the state budgeting in India, with special reference to the J&K state, which enjoys a special status in the country's federal polity.

Budgeting is a very old practice followed to create a strong management tool for various purposes both in public and private sectors even for households. Requirements of governance are never static. These change from time to time as a result of environmental changes from within and outside an organization. That being so, budgeting techniques and models also change. To meet these fundamentals, budget formulation should have a wide base, generally aimed at enhancing value of data base to enable appreciation of goals set and how these are reached, facilitating evaluation of assets and liabilities created as a result of financial investments made, laying down conceptual foundations, facilitating choice between varied options keeping in view much needed equilibrium of development at local, national and international levels and to link inputs and outputs to establish relationship between the two. In this whole gamut of requirements, budget formulation has to follow a smooth and reliable path so that identified destinations are reached without any insurmountable difficulty. The budgetary processes have to be flexible with a futuristic outlook.

Such an approach becomes all the more necessary for the budgeting of the government functioning performed through its field formations operating at various levels, their inter connectivity and fixing these into a general frame to present an integrated outlook of the various programmes and activities brought within the ambit of such a functional requirement. At the same time, in every state budget formulation sufficient space has to be created for a perfectly blended evaluation mechanism for various viability and other tests. This becomes all the more necessary in the world of self-governance where control on the public purse is with the masses, exercised by them through their elected representatives. Need for such type of transparency calls for elaborate and well conceived budgetary structural frames, pre-conceived and systematically laid down modalities for

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developing forecasts and determining the passage of the proposals thus developed to reach their logical conclusions without any hassles. Budget is, therefore, a very important management tool to set the boat of public finance sailing in right direction in turbulent waters. It also provides nearly an accurate data bank for any kind of analysis of economic development, historically and even when the programmes and activities relating thereto are under implementation.

Financial status of every state in India is not the same and their expenditure obligations are also different. In view of this, an elaborate scheme of fiscal federalism has been envisaged in the constitution of the country involving periodical assessment of the financial needs among other things, to rectify, over a period of time, imbalances that exist between different states so far as their economic standing is concerned. In making of such assessment on scientific basis, the data available in the budget becomes an important input. All those involved in such exercises have necessarily to be well versed with the mechanism of using the budget as a management instrument.

Lot of literature related to the budget is already available. The fact, however, remains that for handling the subject of elements of the state budgeting, material/data has to be drawn from various sources which has also to be arranged in a systematic manner so that conceptual clarity is acquired by the reader for intended purpose(s). Accordingly, this book has been developed in parts, explaining in detail and with historical perspective as far as possible, all the components of a budget, namely, its general outlook, legal frame and importance, fiscal federalism, structural frame, formulation of budget forecasts, passage of the budget in the legislature and impact of its financial committees on various aspects of budgetary process. A chapter about the finances of the J&K State has also been provided incorporating various details known about the economics of the place so that these are readily available and used as and when required.

The support given by my colleagues, particularly by S/Shri T. N. Bhat, J. L. Bhat and J.N. Koul is gratefully acknowledged. The work done by Shri Santosh Thusoo in computerizing the manuscript and giving it a proper format is also appreciated. My blessings to Sh. Deelip Misri, Smt. Amita Duda and Smt. Anjali Chowdhary for their support.

A. K. Dewani

Place: Jammu
28- x - 2005

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Chapter 1

GENERAL OUTLOOK, LEGAL FRAME AND IMPORTANCE OF A STATE BUDGET

1.1.0 General outlook:

1.1.1 Budgeting is involved in every walk of life. Any thing to be persued calls for planning and giving it a practical orientation by way of fixing of time schedules and milestones for accomplishment of the desired objectives. Budgeting is, therefore, an age-old practice for conceiving and drawing of action plans of schemes and programmes for implementation during a defined period of time. The state budget is compiled for governance, utilization of natural and human resources for social upliftment and economic development, construction of infrastructure development and human resource management etc. It is, as such relevant to every aspect of the working of the government and different budgets have different connotations depending upon the area of operation, which is brought under budgeting from time to time.

1.1.2 In view of this, it is difficult to evolve a generalized definition of a budget. If we go by the dictionary meaning of the word it is described as under:-

> *A sack with its contents or miscellaneous collection of matters, which aggregate into an annual financial statement made to the parliament by the chancellor of the exchequer.*

1.1.3. The word budget finds its origin in the French word 'baguette' meaning a leather bag, obviously, containing financial proposals. In its present form, the term was used in an anonymous pamphlet entitled "the budget opened" in which Walpole, chancellor of exchequer was attacked for his financial policies during the year 1733. He was described as a clown opening the bag of his tricks and deceptions. Since then the word is in common use and the term. '*Opening the budget*' is now treated as parliamentary language although this phrase or even the word budget does not find any reference in the constitution. Obviously, for the reason of getting a wider canvas for budgeting.

1.1.4 The general outlook of a state budget has two facets, namely its structural frame and the methodology adopted for developing, deciding and fitting of programmes and activities into this frame.

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Since the volume of governmental activities is high, wide spread and varied in its nature it becomes necessary to have a defined structure of a budget to be followed uniformally which is, therefore, given a legal sanctity with the help of provisions made for the purpose in the constitution of a country. Objectively, therefore, the general frame of a state budget is rigid to be modified after detailed deliberations and undergoing a pre-defined process. The methodology for development of contents of a budget does not follow a definite technique, on the other hand it has to have a wider base, generally aimed at:-

Setting up of goals and how these can be reached with comfort; making available financial data both historical and current for various appraisals; finding out of deficiencies in existing systems and policies for appropriate remedial measures; linking of costs with the resultant out come of investments made or to be made and helping in maintaining equilibrium between socio-economic and governance parameters at local, national and international levels.

1.1.5. In essence, therefore, every budgetary exercise is influenced by the need of the field of the activity to be covered as also the circumstances obtaining at the time when it is made fitting at the same time the conclusions into a pre-determined structural frame.

1.2.0. Legal frame of the state budget:

1.2.1. The constitution of India refers to the budget as 'An annual financial statement' tabled in both the houses of parliament by the executive with the sanction of the President. Article 112 of the constitution of India provides.

"The President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year, in this part referred to as an "annual financial statement.

The estimates of expenditure embodied in the annual financial statement shall show separately.

a) the sums required to meet expenditure described by this constitution as expenditure charged upon the Consolidated Fund of India, and

b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund of India and shall distinguish

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expenditure on revenue account from other expenditure".

1.2.2. The state governments are also required to present their annual financial statements in the respective legislatures in accordance with Article 202 of the constitution which reads as under :-

"The Governor shall in respect of every financial year cause to be laid before the House or Houses of the Legislature of the State a statement of the estimated receipts and expenditure of the State for that year, in this part referred to as "annual financial statement."

The estimates of expenditure embodied in the annual financial statement shall show separately.

a) sums required to meet expenditure described by this constitution as expenditure charged upon the Consolidated Fund of the State; and

b) sums required to meet other expenditure proposed to be made from the Consolidated Fund of the State; and shall distinguish expenditure on revenue account from other expenditure."

1.2.3. The constitution makes distinct provisions for budget formulation, its presentation, sanctioning and implementation for the union and the state governments.

1.2.4. Based on this legal frame, the budget of the government is a statement of receipts and expenditure for the year in respect of which it is prepared. Apart from this, the other constitutional requirements in the exercise of drawing an annual financial statement or budget are:

01. It has to be drawn and formulated by the executive (government) essentially for being laid before both the houses of the parliament. The function has been entrusted to the executive because they being in governance are better judges of the public requirements and for meeting constitutional obligations and promises made to the electorate from time to time.

02. The proposals drawn have also to be presented with the sanction of the head of the state, i.e, president of India or governor of a state.

03. Budget has to be broadly, in two parts, i.e, receipts and expenditure. The expenditure on revenue account (construed to mean such type of expenditure which does not result in creation of assets or reduction of recurring liability)

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in turn has to be shown separately from other expenditure, which obviously is capital expenditure and repayment of debt. Capital expenditure is reverse of expenditure on revenue account as it has to result in creation of assets and or reduction in recurring liability.

04. The expenditure is either charged on consolidated fund of India and that of states or it is voted expenditure. The charged expenditure though forming a part of the budget is not subject to vote of the legislature. It can, however, be discussed.

05. Public account has been kept outside the scope of the parliamentary control because this account, by and large, comprise transactions relating to the amounts held in trust by the government, accruing from the activities incidental to its functioning, apart from those which are adjusting in nature or have to be kept under suspense due to one reason or the other.

1.2.5. Though our constitution framers have given full control to the legislature over public purse, still this control is not absolute in respect of certain such items of expenditure which the constitution itself declares as inevitable for various reasons and have thus to be treated as charged on the consolidated fund. These items have also been kept out of the preview of the legislature in order to ensure independence of functioning of various dignitaries such as the president, the governor, the judges of the supreme court and the high court and the like. Complete list of such items for the union government is given in article 112 (3) of the constitution of India. The expenditures which have to be treated as charged by the states are reflected in article 202(3) of the said constitution.

1.2.6. **Charged Expenditures**:- As per articles 112(3), the following expenditure has been declared as expenditure charged upon the consolidated fund of India.

01. The emoluments and allowances of the president and other expenditure relating to his office;

02. The salaries and allowances for the chairman and the deputy chairman of the council of states and the speaker and the deputy speaker of the house of the people;

03. Debt charges for which government of India is liable including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt;

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04. The salaries, allowances and pension payable to or in respect of Judges of the Supreme Court;
05. The pensions payable to or in respect of Judges of the federal court;
06. Pensions payable to or in respect of judges of any high court which exercises jurisdiction in relation to any area included in the territory of India or which at any time before the commencement of the constitution exercised jurisdiction in relation to any area *included in a Governor's Province of the dominion of India;*
07. The salary, allowances and pension payable to or in respect of comptroller and auditor-general of India;
08. Any expenditure required to satisfy any judgment, decree or award of any court or arbitral tribunal;
09. Any other expenditure declared by the constitution or by parliament by law to be so charged.

1.2.7. The items of expenditure which have been declared as charged on the consolidated fund of each state as per article 202(3) are:-

01. emoluments and allowances of the governor and other expenditure relating to his office;
02. the salaries and allowances of the speaker and the deputy speaker of the legislative assembly and in case of a state having a legislative council, also of the chairman and the deputy chairman of the legislative council;
03. debt charges for which the state is liable including interest, sinking fund charges and redemption charges, and other expenditures relating to the raising of loans and the service and redemption of debt;
04. expenditure in respect of salaries and allowances of the judges of any high court;
05. any sums required to satisfy any judgement, decree or award of any court or arbitral tribunal;
06. any other expenditure declared by this constitution or by the legislature of the state by law, to be so charged.

1.2.8 The J&K state has a separate constitution. The above provisions have been incorporated in this constitution mutates mutandis under article 79 captioned "Annual Financial Statement". For the sake of reference, however, contents of this article are reproduced here under : -

"(1) The Governor shall in respect of every financial year cause to be laid before both Houses of the Legislature a statement of the estimated receipts and expenditure of the State for

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that year, in this Part referred to as the "annual financial statement".

(2) The estimates of expenditure embodied in the annual financial statement shall show separately: -

(a) the sums required to meet expenditure described by this constitution as expenditure charged upon the Consolidated Fund of the State; and

(b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund of the State, and shall distinguish expenditure on revenue account from other expenditure."

"(3) The following expenditure shall be expenditure charged on the consolidated fund of the state—

(a) the emoluments and allowances of the governor and other expenditure relating to his office;

(b) the salaries and allowances of the speaker and the deputy speaker of the legislative assembly and of the chairman and the deputy chairman of the legislative council.

(c) debt charges for which the state is liable including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of the loans and the service and redemption of debt;

(d) expenditure in respect of the salaries and allowances of the Judges of the high court;

(e) any sums required to satisfy judgment, decree or award of any court or arbitral tribunal;

(f) any other expenditure declared by the constitution, or by legislature by law, to be so charged."

1.2.9. **Divisions of the budget** : The constitution also provides the broad framework in which a budget has to be compiled: The following three funds have been established.

- Consolidated Fund - (article 266 of constitution of India and article 115 of constitution of J&K)
- Contingency fund - (article 267 of constitution of India and article 116 of constitution of J&K)
- Public Account - (article 266 of constitution of India and article 115 of constitution of J&K)

1.2.10. Broad description of the transactions which have to be grouped within the above three funds have also been indicated. Nature and composition of these funds has been discussed in a separate chapter. Briefly, the consolidated fund is an aggregate of the

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transactions relating to all receipts of the government accruing to it as a result of its functioning, mobilization of additional resources from various available sources and also the receipts raised by issue of treasury bills etc. Expenditure can be authorized from this fund from time to time only in accordance with the law and the authority of the legislature. The contingency fund is in the nature of an imprest kept at the disposal of head of the state for meeting unforeseen expenditures, pending authorization by the legislature by law. The public account deals with transactions in respect of which government functions as a banker or a trustee. The transactions which are in the nature of adjusting accounts also appear in this account. Thus, a budget of the government has three main divisions viz, consolidated fund, contingency fund and the public account. Where as the two funds viz-consolidated fund and the public account have the sub divisions no such sub divisions have been prescribed for the contingency fund.

- **Consolidated fund:** (1).Revenue receipts (2).Expenditure within Revenue A/c. (3). Capital Expenditure (4). Public Debt-receipts/ disbursement. (5).Loans & Advances-receipts/ disbursements.
- **Public A/c:** (1). Small Savings and Provident funds (2). Reserve Funds. (3). Deposits and Advances. (4). Suspense and Miscellaneous. (5). Remittances. (6). Cash Balances.

1.2.11. Under each sub-division sections, sub-sections, major heads, minor heads and detailed heads of account have been prescribed according to the nature of the functions that are undertaken by the government. This pattern of classification has to be fixed by the comptroller and auditor-general of India with the sanction of the president of the Union and has to be uniformly followed throughout the country both in compilation of budget and maintenance of accounts.

1.2.12 **Other features based on legal frame**: The budget is prepared on annual basis. That is to say, there is one budget for one financial year (April to end of March). In order, however, to enable the legislature to appreciate the estimates proposed in a year's budget document, information on the following is also given :-

- Figures of actual expenditure in respect of the financial year preceding to that in which a budget is prepared.
- Estimates and the revised estimates in respect of the year in which the budget is prepared.

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1.2.13. Thus, in the budget for 2002 - 03 besides estimates for that year, the actuals for 2000-01, budget estimates 2001-02 and revised estimates 2001-02 are also reflected. This information is given in respect of every individual item of receipt and expenditure and helps in making comparative analysis for assessing the reasonableness or otherwise of the proposed estimates which is also judged with reference to the assumed growth rates. For a better and broad budget analysis, it is equally necessary to examine various models underlying the economic growth which form the basis of the budget estimates. This becomes all the more necessary in the present day fast changing economic scenario within and outside the country.

1.2.14. We, in India, both at centre and in the states, follow the process of development through five year and annual plans. The five year plan is a long term plan and the annual plan is an action plan in respect of the programmes planned in a five year plan and implemented during a year. This system of planning is followed both at the centre and in the states. Thus, the plan implementation involving expenditure has also to be incorporated in the budget at its appropriate place in accordance with the constitutional requirements through the mechanism of classification of governments financial transactions prescribed by the comptroller and auditor general of India. The plan expenditure is developmental in nature. The other expenditure commonly known as non-plan expenditure is in the shape of maintenance of the assets already created or the level of development reached and that which is necessitated for running of government i.e. expenditure on maintenance of law and order, general administration, administration of Justice, expenditure on tax collections, parliament, state legislatures, pensions, debt servicing and the like. The two types of expenditures are shown distinctly in the budget in a manner which could facilitate working out of aggregate expenditure i.e, plan as also non-plan on every functional input.

1.2.15. Budget is prepared on gross basis. This means that in a budget receipts and expenditure are shown separately. Expenditure on a function is not shown after adjusting the receipts accruing there from. Expenditure is accounted for separately and the receipts are also reflected separately on gross basis. In this manner it is possible to ascertain the direct financial return from the investments in various programmes.

1.2.16. Budget is prepared on cash basis i.e. on the basis of what is expected to be received in cash and paid also in a cash during a budget year. This, in other words means that unspent balances at

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the close of a year lapse and similarly the liabilities, if any, are carried forward from year to year.

1.2.17. The budget has to be prepared on annual basis so that at the close of each financial year it is possible to measure achievements of the executive against the budgeted targets through the mechanism of appropriation accounts and audit reports brought before the legislature through the modalities provided for the purpose in the constitution.

1.2.18. Apart from giving minute details in respect of the expenditures proposed for various programmes, the budget also indicates the overall position of the receipts and expenditures. In this way, the budget also brings out how far the expenditure falls short of receipts or how far the receipts exceed expected expenditure. In the former situation i.e, when expenditure exceeds the receipts, the budget is known as a deficit budget and in the later case when receipts exceed the expenditure, we say the budget is surplus. When the budget is deficit steps to be taken to bridge the gap, have also to be considered and spelled out for approval of the legislature and for information of general public. In the concept of a welfare state the budget is generally deficit. This is so because the demands are enormous and the resources scare and balancing a budget under these circumstances is a complex problem. Attempt of the government should be to ensure that every available resource is utilized for promoting welfare of the society in an efficient manner. Therefore, a surplus budget is not considered to be a healthy one, as it is indicative of the fact that the available resources have been under utilized which is hardly a desirable situation more so in case of developing countries. An ideal situation is that the budget should be reasonably deficit one. This, apart form enabling to provide for meeting peoples demands as far as possible also creates an opportunity in bridging the gap between rich and the poor sections of the society as far as possible, by taxing the affluent sections and providing more opportunities to raise the standard of living of the weaker sections by taking suitable measures.

1.3.0 Importance of a state budget:

1.3.1. The state budget is undoubtedly a very important document not only because of its contents but also because it generates a debate within the executive, in the legislature and among the general public about various requirements of the governance and how these are accomplished i.e. the way for identification of objective destinations, setting of routes to reach these and determination of relation as bet-

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ween budgetary inputs and outputs. Broadly, importance of the state budget has the following facts:-

- An axiom of financial control
- As an instrument of social justice
- As a mechanism of economic growth

These aspects of importance of a budget are discussed hereunder:-

1.3.2 **As an axiom of financial control**:- The executive mobilizes financial resources from the general masses, one way or the other to be utilized for achieving the objectives underlying the directive principles of the constitution of the country. That being so, the public has a right to satisfy themselves that the executive is moving in a proper direction. Visualizing this need, the constitution has rightly given an exclusive authority to the elected representatives sitting in the legislature to exercise an effective control on the public purse, which they do through the medium of the state budget. The budgetary procedures give an opportunity to the elected representatives to control fiscal policy of the state and exert influence on political developments in rather a different and more effective manner than it is available to them in ordinary legislations. Expenditure has to conform to the budget. The comptroller and auditor-general watches accomplishment of such a conformity. Deviations, if any, are brought to the notice of the legislature which are examined by it through its committee on public accounts for such action as may be deemed necessary according to the circumstances of each case.

1.3.3 Within the executive also, budget helps in ensuring effective financial control. The finance ministry/department scrutinizes the estimates of expenditure and revenues when the budget is compiled. At that time, working of different departments is reviewed at various levels right form cabinet down below to the gross root level of the public administration. Not only that, after the budget is passed, controls are exercised by appropriating funds and watching of expenditure.

1.3.4 Preparation of a budget involves listing the needs, which are numerous, and these have therefore, to be arranged according to the priorities. The expenditure commitments evolved have to be matched to the available resources, which are scarce. The budget provides an occasion for the public in general and their elected representatives in particular to assess how successful the executive has been in arranging the priorities within the available financial parameters.

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1.3.5 In view of above, a state budget is an axiom of financial control.

1.3.6 **As an instrument of Social Justice:** The budget is regarded as a powerful instrument of social policy. Designed to achieve economic stability, full employment, a high level of investment, increased production and better distribution. It provides an opportunity to create and consider ways and means for bridging the gap between rich and the poor by adopting a suitable taxation policy, i.e. a policy which could create a variation in the economic power with a favourable dent towards weaker sections of the society.

1.3.7 Importance of having a budget during these days is much more than it was ever before. Compilation of a budget gives an opportunity to the executive to think about the programmes they are expected to take up during a particular period for the welfare of the people and how these can be implemented effectively & efficiently. Budget is in effect, an action plan, which is expected to guide the administration in day-to-day implementation of the administrative, social and economic programmes, in which accomplishment of social justice for every section of the population becomes an inevitable priority.

1.3.8 **As a mechanism of economic growth:** Social security and justice together with perfect financial control on public purse by the elected representatives of the people with full transparency are the essentials for an adequate economic growth. These are provided by the state budget, which is a very important management tool to set the boat of the public finance sailing in right direction in turbulent waters. It also provides a reasonably near accurate data bank for any kind of analysis of the economic development programmes, historically and even when these are under implementation.

1.3.9 When a budget is presented to the legislature every member of the house has a right to take part in the discussions that follow and apart from raising general economic issues they also ventilate grievances of their respective constituencies. Thus, the problems are pinpointed for suitable administrative action by the executive. In every budget session of the legislature thousands of problems are raised, which have to be taken note of by the government and replied as far as possible on the floor of the house. This being the situation, the executive should through the budget ensure that the public expenditure is so planned that its advantages are felt in all directions according to the requirements of people and the areas. On the income side also, budgeting the estimates proves very helpful. You can fix the targets with reasonable degree of accuracy

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and watch progress of realization from time to time. Apart from this, budget formulation also provides an opportunity for considering and taking up of new measures of raising resources by way of imposing taxes, rationalizing the existing tax structure and by adopting other resource mobilization measures. The control is so elaborate that it brings within its ambit examination of the fiscal planning process, giving it a practical shape in the form of an action plan, watching its implementation and eventually their evaluation.

1.3.10 In free market economy there has to be no need for government intervention in economic fields. The concept of free market economy essentially envisages ability to adjust against the prevailing market forces which interalia involve observance of profit motive. All these requirements, however, presuppose conditions of free and perfect competition and existence of an economic efficiency for production and consumption. This gives rise to privatization. It has been seen that such ideal conditions hardly prevail in world economies more-so in developing and under-developed ones. The result is that if absolute free play is given to the liberalized economy, development of all sections of the society and all areas of the country designed to create uniformity in the present standard of living and development of resources for future generations will be difficult to accomplish. The concept of free market economy in this dispensation has to take its own time for maturity and it cannot be brought about overnight. In order to reduce its adverse effects some regulatory measures become inevitable which cannot be provided with legal and economic thrust by any agency other than the government who have therefore, to continue their intervention in order to remove, reduce or compensate for imperfections and reallocate the resources between individuals and the areas. Distribution which results from operation of free market forces becomes unjust in certain circumstances. All these requirements can be brought about in the budgetary process and reflected and enforced through the instrument of budget more efficiently and effectively than through any other mechanism.

1.3.11 In essence budget is, therefore, an important document, which provides an ample opportunity to respond to the needs and demands within and outside government. The boundaries of a budget are no longer defined by narrow process or procedures based on techniques only. On the other hand, it has to have a wide base.

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Chapter 2

FISCAL FEDERALISM

2.1.0 Historical background:

2.1.1 Our present fiscal federalism by and large, reflects enactments and procedures evolved and adopted during British raj with such modifications as have been necessitated by political, administrative and economic considerations of independent India.

2.1.2 When administration of the country was held by East India Company, a highly centralized form of financial management was followed. During this period, the controls were exercised in accordance with the chartered act of 1833 which vested all powers in the office of the governor general of India who was the sole authority for all the civil and military decisions. The local governments were left with almost no powers, everything being vigorously centralized. The centre controlled even the smallest and insignificant expenditure. Its authority was required for appointment of every person and also for taking up of works of purely local nature. Centralization of authority to this extent was to facilitate consolidation and strengthening of the hold of the alien rulers over the country. The above pattern of strict central control continued even after administration of the country passed from the East India company to the crown in the year 1858, being preserved by acts of 1853, 1858 and also by the Indian council act of 1861.

2.1.3 It was, however, soon found that the system has serious shortcomings which interalia, led to the creation of huge fiscal deficit. During the year 1860-61, the British parliament was informed by the then finance minister, Mr. Janes Wilson, that the deficit on account of Indian finances has accumulated to over 305 lakh pounds besides creating a debt obligation of over 384 lakh pounds. It was also found that the provinces which had no financial responsibility developed a tendency of asking for more funds than was actually necessary for them and in this process, the powerful provinces who were able to press their demands got maximum advantage generally at the cost of really deserving provinces.

Financial decentralization was, therefore, suggested by Mr. Laing. In his speech as finance minister while presenting his financial statement for the year 1861-62, he observed: -

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"It is most desirable to break through the system of barrel uniformity and pedantic centralization which have tended in times past to reduce all India to dependence on bureaucrats of Calcutta and to give to the local governments the power and responsibility for their own local affairs".

2.1.4 Thus, started a dialogue to find out what shape should the central state financial relations take in India to suit the best interests of political and economic requirements of the time. It is after about a decade that Lord Mayo in effect initiated the process of decentralization to achieve the objective of enlarging the control and responsibility of the provincial governments in respect of their own governance commitments. Accordingly, in the year 1870, administration of certain departments including education, police, medical services, roads and buildings was transferred to the charge of these governments. Major portion of finances for management of such services were also given to the provinces by the centre. The total requirement of provinces on this account at that time was assessed at 45.14 lakh pounds on the basis of past actuals out of which 35 lakh pounds were provided by the centre, the balance was arranged by the provinces at their own level.. Since the level of central assistance was based on past actuals, its intra provincial distribution was also based on the same factor. This methodology of determination and distribution of central assistance which had no relevance to the actual requirements was criticized by various provincial governments. The main advantage of initiating this type of decentralization was, however, that a process of periodical financial settlements as between the centre and the provinces was set in leading to a constant review of the arrangements which helped in bringing about some reforms in fiscal management at that time.

2.1.5 In the year 1877, as a result of Lord Lyetons reforms, the financial control of services like land revenue, excise, stamps, law and justice and general administration were transferred to the provincial governments. Still important of these reforms was that a formula was for the first time devised for sharing of proceeds of sources of revenue which were transferred to the jurisdiction and administration of the provinces. Under this settlement it was decided that any increase in the yield of revenue from these sources beyond an agreed level and rate of growth was shared between centre and the provinces. Legally, however, all the sources of revenue continued to belong to the centre and all the cash balances also continued to be part of one single account of the domain.

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2.1.6 A voice was raised that the states should have their own independent sources of revenue and to meet this demand a scheme of "divided heads of revenue" was devised in the year 1882 as a result of which the revenues started to be identified as " (01) imperial, (02) provisional, and (03) divided. This theory of divided heads was further improvised in quasi - permanent settlement of 1904, as a result of which the different sources of revenue were identified and grouped as under:-

- **Central government:** Opium, Salt, Customs, Railways, Mint, P&T, Military receipts and Tributes from princely states.
- **Provincial governments:** Registration, Ordinary public works, Police, Education, Medical services and Jails.
- **Common divisible pool:** Land revenue, Stamps, Income tax, Excise and Forests.

2.1.7 The expenditures were also categorized as 'central', 'provincial' and 'divisible' between the two. The central government was incharge of the expenditure relating to defence, railways, P&T and home charges. The provincial governments were responsible for expenditures incurred in connection with land revenue , law and justice, police, jails, education, medical services, stationery and printing and provincial civil works. The expenditure on stamps, excise, income tax and forests were equally divided. As a result of this settlement, a separate famine relief fund was also established to which annual contributions were made by the central government and would be drawn upon in the event of necessity.

2.1.8 Under the above arrangement, the provinces would generally face a deficit which would be attempted to be bridged by the centre in three ways namely:- (01) by grants for public works, (02) by lumps sum grants for development of agriculture, education and police reforms, and (03) by a fixed assignment under land revenue.

2.1.9 No important changes were brought about in subsequent settlements except that in the year 1912 a larger share was given to the provinces in growing sources of revenue. The provincial finances entered a new face with the implementation of the reforms of 1919. During this period as a result of sustained political pressures, the British government declared their policy of developing self governing institution with a view to establish a responsible government in India as part of British empire. As a result of this Mr. Montago Chelmsford, the then secretary of state for India, suggested constitutional reforms in 1918 which eventually took the shape of government of India act 1919 with objective of

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division of functions and finances. The financial resources were divided as between centre and the provinces straight away. Land revenue, excise, irrigation, forests, judicial stamps were entirely given to the provinces. Similarly, customs, commercial stamps, railways, salt, opium, P&T were retained as wholly central heads of revenue. The major political implication of this arrangement was that it created deficit with the centre and gave surplus to the provinces. To overcome this situation , the provinces were made to contribute to the central revenues which created a lot of resentment and the British government had to constitute a committee to advice on financial relations between centre and provincial governments. This committee appointed in the year 1920 was headed by Lord Meston.

2.1.10 The Meston committee mainly suggested that the income tax should not be distributed among the states because it is difficult to find local collection of this tax and also it is necessary to maintain uniformity of rates through out the country. This helped the centre to reduce their deficit to Rs. 9.83 crores in the year 1921-22 from an earlier figure of Rs. 13.63 crores. The committee also recognized the need of the provinces making contribution to remove the central deficit on the basis of the capacity of each province to bear such a burden. This arrangement remained in force for about a decade. With the passage of time the sources available with the provinces were found to be inelastic whereas their needs were growing. The centre on the other hand, held very potential sources of revenue. It was in the year 1928-29 that Sir Walter Lyton suggested that the provinces should get a share in income tax and the other taxes such as export duty on jute.

2.1.11 Inspite of all gradual reforms towards decentralization of financial delegation and jurisdiction, the fact, remained that the centre retained real financial authority over the provinces who had no taxation authority or borrowing powers. No separate cash balances would be authorized to be maintained by the provinces. The British government evolved a scheme of allocation of revenue as between the centre and the provinces as a part of their proposals for Indian constitutional reforms published as a white paper, ultimately incorporated in the government of India, act 1935. This act categorized functions and finances as federal, provincial and concurrent. As a result of this, the tax sources were fixed as: (01) taxes levied and collected by the provinces, (02) taxes levied and collected by the centre but assigned to the provinces, (03) taxes and duties levied by centre and divided between the centre and the provinces.

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2.1.12 The act also provided that transfer of resources from centre to the provinces should be authorized under orders of the British government to be issued as an order in council based on the findings of a special enquiry covering overall survey of the financial position of the provinces. Sir Ottoo Niemeyer was first to be appointed as a special enquiry under the government of India act 1935 whose recommendations therefore, formed the basis of transfer of resources from centre to the provinces. Transfer of resources to the provinces/states was made on the basis of these recommendations prior to 1950-51 and also before appointment of finance and planning commissions. The following table indicates transfers, thus, made in some selected years.

(Rs. in Crores)

Year	Total amount transferred	Share taxes		Grants in aids	
		Income tax	Jute export	Cash substance	Specific grants
1	2	3	4	5	6
1937-38	7.02	1.25	2.65	3.12	--
1941-42	12.37	7.39	1.95	3.03	--
1945-46	40.04	28.57	1.57	1.70	8.02
1950-51	74.46	47.46	47.57	--	--

All these developments put together have led to incorporation of various provisions in the constitution of India to regulate fiscal federalism in the country, which is followed as at present.

2.2.0. Fiscal federalism in independent India - General

2.2.1. India is a union of states. Executive powers of the union are vested in the president to be exercised by that authority directly or through officers subordinate thereto in accordance with the regulations prescribed for the purpose in the constitution of the country. Similarly, the executive powers of every state are vested in the governor who also exercises these powers directly or indirectly in accordance with the constitution. As regards union territories these are administered by the president acting to such extent, as considered necessary through an administrator to be appointed by the president with specified designation.

2.2.2. No doubt, the constitution has made the president and the governor of a state as head of administration but these authorities have to act on the advise of their ministers rendered to them through the prime minister/chief minister as the case may be except under certain specified circumstances. In effect therefore, the executive powers vested in these high offices of the president and the governor are

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exercised by council of ministers who are elected representatives of the people.

2.2.3. In the present dispensation we have therefore, union government as also state/union territories governments operating within their respective jurisdictions. Link between state government and the union government is governor who is appointed by the president and holds office during his pleasure in accordance with the constitution of the country.

2.2.4. Every state has its own legislature and the union has the parliament. The constitution also envisages a detailed scheme for distribution of legislative powers between the states and the union.

2.3.0. Distribution of Powers:

2.3.1. In the seventh schedule of the constitution subjects in respect of which legislative powers can be exercised by the union and the states have also been identified and prescribed separately in the lists termed as "union list" and "state list". A third list known as "concurrent list" has also been evolved and adopted in the said schedule of the constitution. These lists are reproduced in **Annexure –2.01** to this chapter.

2.3.2. In respect of the matters specified in the union list, laws can be enacted by the union exclusively. Similarly, in case of matters included in the state list legislative powers exclusively vest with the states. In respect of the matters listed in the concurrent list, laws can be enacted both by centre as well as states. Laws thus enacted on the matters included in the concurrent list by the parliament however, supercede those if any, made by the states.

2.3.3. The distribution of legislative powers as above form basis for distribution of functions between centre and states, consequently the financial resources and the expenditure obligation also. Generally speaking, the union list includes such of the matters, which are of national importance necessary to maintain unity, integrity and sovereignty of the country. The matters which call for uniformity in planning and implementation such as post and telegraphs, railways, shipping and navigation, airways, banking, insurance or the sources of taxes on income other than agriculture income, duties on customs including export duties, corporation tax, estates duty also form part of this list. The sources of revenue available to the centre are elastic and have more potential. On the

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other hand, state list includes matters related to local administration such as public order, policing, internal communications, agricultural operations etc. In order to enable the states to meet their various obligations they can also enact laws for imposition and collection of taxes. These taxes, among others, include taxes on agricultural income, state excise duties, sales tax, entertainment taxes, tolls etc. These sources of revenue are not as elastic as those allotted to the union. Obviously therefore, more financial powers are with the union. The objective being to enable it, among other things, to rectify, over a period of time imbalances that exists between different states so far as their standards of living and other economic factors are concerned besides securing a strong centre.

2.3.4. The J&K state has a unique status as compared to the other states of India. This is because of the fact that "the relationship of Kashmir with India was initiated on a federal basis and there was a clear division of sovereignty between centre and this state, which is a normal feature of a federation. Beyond the powers transferred by it to the union the state enjoyed complete residuary sovereignty." The arrangement has been secured by incorporation of Art. 370 in the Indian constitution, reproduced hereunder:

"(1) Notwithstanding anything in this Constitution, --

(a) the provision of article 238 shall not apply in relation to the State of Jammu and Kashmir;

(b) the power of Parliament to make laws for the said State shall be limited to-

(i) Those matters in the Union List and the Concurrent List which, in consultation with the Government of the State, are declared by the President to correspond to matters specified in the Instrument of Accession governing the Accession of the State to the Dominion of India as the matters with respect to which the Dominion Legislature may make laws for that State ; and (ii) such other matters in the said Lists as, with the concurrence of the Government of the State , the President may by order specify.

Explanation:- For the purposes of this article, the Government of the State means the person for the time being recognized by the President as the Maharaja of Jammu and Kashmir acting on the advice of the Council of Ministers for the time being in office under the Maharajas Proclamation dated the fifth day of March, 1948 ;

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(c) the provisions of article 1 and of this constitution shall apply in relation to that State ;

(d) such of the other provisions of this constitution shall apply in relation to that State subject to such exceptions and modifications as the President may by order specify ;

Provided that no such order, which relates to matters specified in the Instrument of Accession of the State referred to in paragraph (1) of sub-clause (b) shall be issued except in consultation with the Government of the State;

Provided further that no such order, which relates to matters other than those referred to in the last preceding proviso, shall be issued except with the concurrence of that Government.

(2) If the concurrence of the Government of the State referred to in paragraph (ii) 0f sub- clause (b) of clause (1) or in the second proviso to sub-clause (d) of that clause be given before the Constituent Assembly for the purpose of framing the Constitution of the State is convened, it shall be placed before such Assembly for such decision as it may take thereon.

(3) Notwithstanding anything in the foregoing provisions of this article, the President may, by public notification, declare that this article shall cease to be operative or shall be operative only with such exceptions and modifications and from such date as he may specify;

Provided, that the recommendation of the Constituent Assembly of the State referred to in clause (2) shall be necessary before the President issues such a notification.

Cl. (1) (d) :`Modifications`,-(1).The power to `modify` includes the power to enlarge or add to an existing provision or to abrogate it, if necessary. It is co-extensive with the power to amend and is not confined to minor alterations only.(2). Article 370 is a special provision for amending the Constitution in its application to the State of J&K. Article 368 does not curtail the power of the President under Art.370. (3). Article 246 has been applied only with modifications to the State of J&K. As a result, the State Legislature of J&K has a residuary power of legislation over matters, which may not be enumerated in the State List or the Concurrent List; the only limitation is that it must not be within the exclusive jurisdiction of Parliament.

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Declaration under Art. 370(3),_In exercise of the powers conferred by Art 370(3),the President has substituted the Explanation to Art.370(1) as follows:

"Explanation,_ For the purposes of this article, the Government of the State means the person for the time being recognized by the President on the recommendation of the Legislative Assembly of the State as the *Sadar-i-Riyasat* of Jammu and Kashmir, acting on the advice of the Council of Ministers of the State for the time being in office."

2.3.5. In essence, this article of the Indian constitution envisages that powers of the parliament to make laws for J&K have been limited and also subjected to such exceptions and modifications as the president may by order specify. The president's powers have also been limited in the sense that orders can be issued in this behalf by this dignitary only with the concurrence of the government of the state. Thus, the state list of the seventh schedule of the constitution of India is not applicable to the J&K state. Application of the matters in the union and concurrent lists in this schedule has also been restricted to those items which in consultation with the government of the state, are declared by the president to correspond to the matters specified in the Instrument of accession governing the accession of the state to the dominion of India as the matters with respect to which the dominion legislature may make laws for that state and such other matters in the said lists as, with the concurrence of the government of the state, the president may by order, specify. The J&K state has therefore its own constitution, which deals with all the matters including finance. Only such of the provisions of the Indian constitution apply to the state, which are specified in the manner as mentioned above.

2.3.6. The president of India issued "The constitution (Application to Jammu and Kashmir) order, 1950" in consultation with the government of the state. This order was superseded by issue of another order namely "The constitution (Application to Jammu and Kashmir) order, 1954 by the president of India. Subsequent to this, amendments have been made to the 1954 order from time to time. The amendment orders have been issued by the President in the years 1958, 1959, 1960, 1961, 1963, 1964, 1985, 1986, 1989, 1993, 1994. The process will obviously, continue and further amendments may be made as and when need arise.

2.3.7. In this dispensation the J&K State has a different status as compared to other states of the country. "In the initial stages" after

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states integration with India, the J&K had its own "income tax and customs". It was only after May 1957, the state has entered in the financial arrangement with the union government, which brings it at par with other states in respect of financial matters including proportionate allocation of funds from the centre. The residuary provisions in art. 248 and entry 97 of the union list including taxation however lies with the state legislature. The union list excepting a few of its entries has been extended to the state of J&K. Accordingly, "subject not covered by the entries in the union list extended to the state are all state subjects." As opposed to other states, the residuary powers of legislation including taxation lie with the state legislature. As a result, the state is free for instance, to impose taxes on services. In case of other states these powers lie with the centre.

2.4.0. Areas of central - state financial relations:

2.4.1. It has to be noted that finance is an essential input for good governance of a country. Division of function and resources as between centre and states has to be in a manner as would make the financial constraints of either of them as manageable as possible. The Indian constitution provides mechanism to reach this goal as under:-

- Income from some of the sources of taxes in the union list form a divisible pool sharable by the centre and the states on the recommendations of the finance commission (appointed after interval of every five years).
- State governments are given grants-in-aid to meet their budgetary gap determined by the finance commission in accordance with pre-determined yardsticks.
- Developmental plans are regulated and their pattern of funding is determined by the planning commission.
- Implementation and funding of central and centrally sponsored schemes.

2.4.2. Apart from sharing of finances as above, there are other sources also which accrue to the centre government in which the states receive their share. These include: -

- Sharing of small savings and finance available for investment from national financial institutions like life insurance corporation, housing and urban development corporation and the like.
- Sharing of assistance available from world bodies and other countries.

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- Sharing of funds available from market including commercial banks.

2.4.3 All of these and allied matters are discussed in details subsequently in this chapter.

2.5.0. Distribution of certain duties and taxes between union and the states:

2.5.1. Generally speaking, distribution of taxes and duties between union and the states fall into two categories, namely: -01.duties levied by the union but collected and appropriated by the states, and 02. duties and taxes levied and collected by the union and assigned to the states and or shared by them.

2.5.2. Category (01) as mentioned above is regulated by the provisions made in art. 268 of the Indian constitution which reads as under: -

"(1) Such stamp duties and such duties of excise on medicinal and toilet preparations as are mentioned in the union list shall be levied by government of India but shall be collected-

(a) in case where such duties are leviable within any Union Territory, by government of India, and

(b) in other cases by the States within which such duties are respectively leviable.

(2) The proceeds in any financial year of any such duty leviable within any State shall not form part of the Consolidated Fund of India, but shall be assigned to that State."

2.5.3. Some duties and taxes are levied and collected by the union but assigned to the states in full or shared by the two. Therefore, category (02) of para 2.5.1. gets further sub-divided as under: -

01. Duties and taxes levied and collected by the union but assigned to the states.

02. Duties and taxes levied and collected by the union and distributed between union and the states.

2.5.4. Duties and taxes levied and collected by the union but assigned to the states are regulated by the provisions made in art, 269 of the Indian constitution which read as under: -

"(1) Taxes on the sale and purchase of goods and taxes on the consignment of goods shall be levied and collected by the Government of India but shall be assigned and shall be deemed to have been assigned to the States on or after the 1st day of April, 1996 in the manner provided in clause (2)

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Explanation: - For purposes of this clause

(a) The expression "tax on sale or purchase of goods" shall mean taxes on sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce;

(b) The expression "taxes on the consignment of goods" shall mean taxes on the consignment of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State trade or commerce.

(2) The net proceeds in any financial year of any such tax, except in so far as those proceeds represent preceedes attributable to the Union Territories, shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that tax is leviable in that year, and shall be distributed among those states in accordance with such principles of distribution as may be formulated by Parliament, by law.

(3) Parliament may by law formulate principles for determining when a sale or purchase of or consignment of goods takes place in the course of inter-State trade or commerce".

2.5.5. Duties and taxes falling under category (02) of para 2.5.3 are also covered by art 270 of the Indian constitution which reads as under: -

"(1) All taxes and duties referred to in the Union List, except the duties and taxes referred to in Art 268 and 269, respectively, surcharge on taxes and duties referred to in Art 271 and any cess levied for specific purposes under any law made by the Parliament shall be levied and collected by the Government of India and shall be distributed between the Union and the States in the manner provided in clause (2).

(2) Such percentage, as may be prescribed, of the net proceeds of any such tax or duty in any financial year, shall not form part of the consolidated Fund of India, but shall be assigned to the States within which that tax or duty is leviable in that year, and shall be distributed among those States in such manner and from such time as may be prescribed in the manner provided in clause (3).

(3) In this article, "prescribed" means;

(i) until a Finance commission has been constituted, prescribed by the President by order; and

(ii) after a Finance commission has been constituted, prescribed by the President by order after

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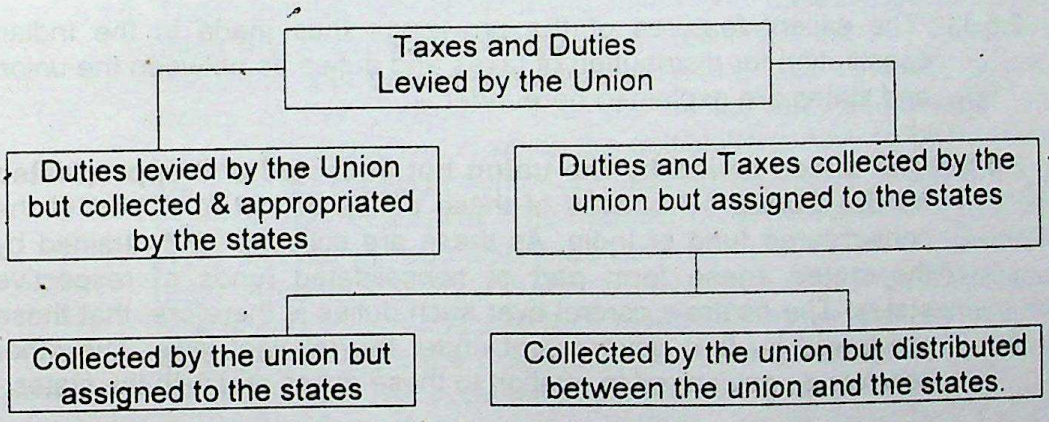
considering the recommendations of the Finance Commission."

2.5.6. Art.271 of the constitution of India mentioned in clause (1) of Art 270 as quoted above reads as under: -
"Not-withstanding anything in articles 269 and 270, Parliament may at any time increase any of duties or taxes referred to in those articles by a surcharge for purposes of the Union and the whole proceeds of any such surcharge shall form part of the Consolidated Fund of India."

2.5.7. In simple terms the scheme of distribution of certain taxes and duties as between the union and the states termed as divisible pool, as envisaged in the Indian constitution emerges as reflected in the following diagram:



2.5.8. Duties levied by the union but collected and appropriated by the states are:- 01. Duties of excise on tobacco and other goods manufactured and produced in India, except – (a). alcoholic liquors for human consumption; (b). opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry (entry 84).02. Rates of stamp duty in respect of bills of exchange, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts (entry 91).

2.5.9. The taxes levied and collected by the union but assigned to the states are as under: -

01. Taxes on sale and purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade and commerce (entry 92A)

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02. Taxes on the consignment of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of the inter-State trade or commerce (entry 92B).

2.5.10. The taxes and duties which are levied and collected by the union and shared with the states are as under: -

01. Taxes on income other than agricultural land (entry 82). 02. Estate duty in respect of property other than agricultural land (entry 87). 03. Terminal taxes on goods or passengers, carried by railways, sea or air, taxes on railways fares and freights (entry 89). 04. Taxes on sale or purchase of newspapers and on advertisements published therein (entry 92).

2.5.11. The salient features of the provisions thus made in the Indian constitution for distribution of taxes and duties as between the union and states are explained hereunder: -

2.5.12. **The duties levied by the union but collected and appropriated by the States**: -Proceeds of these duties do not form part of the consolidated fund of India. As these are collected and retained by the states, these form part of consolidated funds of respective states. The centre's control over such duties is therefore, that these are levied by that government under the relevant laws. The other controls as envisaged in relation to these duties rest with the states.

2.5.13. **Duties and Taxes levied and collected by the union but assigned to the states**: - Art 269 of the Indian constitution reproduced at para 2.5.4. has to be read with entry 92 A and 92 B of the union list of the VII Schedule (2.5.3 (01) and 2.5.3 (02). Where as, legislative powers for taxation in the area of inter-state trade and commerce are given to the union under entries 92 - A and 92 - B of the schedule VII, other conditions relating to this subject matter are prescribed in art 269. Both the provisions in this constitution are therefore, complimentary to each other.

2.5.14. Only net proceeds of these taxes, excluding those collected in union territories have to be distributed among the states. Methodology for calculation of the net proceeds has also been, broadly described in art 279 of the constitution which reads as under: -

"(1). In the foregoing provisions of this Chapter, "net proceeds" means in relation to any tax or duty the proceeds thereof reduced by the cost of collection, and for the purposes of

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those provisions the net proceeds of any tax or duty, or of any part of any tax or duty, in or attributable to any area shall be ascertained and certified by the Comptroller and Auditor General of India, whose certificate shall be final.

(2). Subject as aforesaid, and to any other express provision of this Chapter, a law made by the Parliament or an order of the President may, in any case where under this Part the proceeds of any duty or tax are, or may be, assigned to any State, provide for the manner in which the proceeds are to be calculated, for the time from or at which and the manner in which any payments are to be made, for making of adjustments between one financial year and another, and for any other incidental or ancillary matters."

2.5.15. Thus, the net proceeds of the taxes and duties collected by the union and distributed among the states under art 269 have to be calculated and arrived at under a law that may be made or under orders of the president. The law or the presidents order shall prescribe the manner in which the calculations have to be made and the time for making payments including adjustments between one financial year to another. The matters incidental or ancillary to these taxes and duties have also to be covered by such law or presidential order. Another important thing about arriving at distributable/ adjustable accounts in respect of such taxes and duties is that these have to be arrived at by the Comproller and Auditor General of India and his certification has to be taken as final.

2.5.16. **Taxes and duties levied and collected by the union but shared with the states**: - Distributable net proceeds in respect of these taxes and duties also include cesses levied for specific purposes under any law made for the purpose by the parliament. Similarly, percentage of these taxes and duties which go to the divisible pool has also to be prescribed under orders of the president who shall issue such orders after considering recommendations of the finance commission (an authority appointed under the provisions of the Indian constitution as described separately in this chapter). The net proceeds of these taxes and duties have also to be distributed among the states within which these are levied and collected.

2.5.17. The parliament has also an authority to impose surcharge on any such taxes and duties at any time and whole proceeds of such surcharge are to be retained by the government of India and thus form a part of the consolidated fund of India. It has to be noted that

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this surcharge can be levied in respect of taxes and duties referred to in art 269 of the constitution only, which are listed hereunder:

01. Duties in respect of succession to property other than agricultural land.
02. Estates duty in respect of property other than agricultural land.
03. Terminal tax on goods and passengers carried by railway, sea or air.
04. Taxes on railway fares and freights.
05. Taxes on sale and purchase of newspaper and on advertisements published therein.
06. Taxes other than stamp duties on transactions in stock exchange and future markets.
07. Taxes on income other than agricultural land.

2.5.18. In order to safeguard interests of the states in the scheme of distribution of proceeds of taxes and duties as mentioned in the foregoing paras, the constitution makes a specific provision according to which it is necessary to obtain prior recommendation of the president while affecting taxation in which states are interested. Art 274 of the Indian constitution makes the following provisions in this behalf:

"(1) No bill or amendment which imposes or varies any tax or duty in which States are interested, or which varies the meaning of the expression "agricultural income" as defined for the purposes of the enactments relating to Indian income tax, or which affects the principles on which under any of the foregoing provisions of this Chapter moneys are or may be distributable to States, or which imposes any such surcharge for the purposes of the Union as is mentioned in the foregoing provisions of this Chapter, shall be introduced or moved in either House of the Parliament except on the recommendation of the President".

(2) "In this article, the expression "tax or duty in which states are interested" means: -

(a) a tax or duty the whole or part of the net proceeds whereof are assigned to any State; or

(b) a tax or duty by reference to the net proceeds whereof sums are for the time being payable out of the Consolidated Fund of India to any state.

2.5.19. Thus, it is clear that prior recommendation of the president is required before a bill affecting the following is introduced or moved in either of the houses of the parliament.

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1. Imposition of any tax or duty in which a state is interested.
2. Changing the definition of the term agricultural income in the income tax act.
3. Changing principles on which distribution of the proceeds of taxes and duties are based.
4. Imposition of any surcharge for purposes of the union.

2.6.0. Giving of Grants-in-aid by the union to the states:

2.6.1. Financial position of every state is not the same and their expenditure obligations are also different. In order therefore, to bridge the gap between the states in the area of economic development, the constitution envisages a scheme of giving of grants-in-aid to those states which need such an assistance according to their require-ments. Different sums may be fixed as payable to different states from time to time. Art 275 of the Indian constitution makes the following provisions for payment of grants by the union to the states:-

"(1) Such sums as Parliament may by law provide shall be charged on the Consolidated Fund of India in each year as grants-in-aid of the revenues of such States as Parliament may determine to be in need of assistance, and different sums may be fixed for different States.

Provided that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of a State such capital and recurring sums as may be necessary to enable that State to meet costs of such schemes of development as may be undertaken by the State with the approval of the Government of India for the purpose of promoting the welfare of the Scheduled Tribes in that State or raising the level of administration of Scheduled areas therein to that of the administration of the rest of the areas of that State.

Provided further that there shall be paid out of the Consolidated Fund of India as grants-in-aid of the revenues of the State of Assam sums, capital and recurring equivalent to: -

(a) the average excess of expenditure over the revenues during the two years immediately preceding the commencement of this Constitution in respect of the administration of the tribal areas specified in Part I of the table appended to paragraph 20 of the Sixth Schedule; and

(b) the costs of such schemes of development as may be undertaken by that State with the approval of the

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Government of India for the purposes of raising the level of administration of the said areas to that of the administration of the rest of the areas of that State.

(1A) On and from the formation of the autonomous State under article 244A:-

(i). any sum payable under clause (a) of second proviso to clause (1) shall, if the autonomous State comprises all the tribal areas referred to therein, be paid to the autonomous State and, if the autonomous State comprises only some of those tribal areas, be apportioned between the State of Assam and the autonomous State as the President, may by order, specify;

(ii). there shall be paid out of the Consolidated Fund of India as grant-in-aid of the revenues of the autonomous State sums, capital and recurring, equivalent to the costs of such schemes of development as may be undertaken by the autonomous State with the approval of the Government of India for the purposes of raising the level of administration of that State to that of the administration of the rest of the State of Assam.

(2) Until provision is made by Parliament under clause the powers conferred on Parliament under that clause shall be exercisable by the President by order and any order made by the President under this clause shall have the effect subject to any provision so made by Parliament.

Provided that after a Finance Commission has been constituted no order shall be made under this clause by the President except after considering recommendations of the Finance Commission."

2.6.2 Under the substantive provision of this article, therefore, grants-in-aid becomes payable from and out of the consolidated fund of India to such of the states who are in need thereof. Such payments to the states become expenditure charged on the said fund. It may not be given to all the states and different sums may be paid to different identified states. These grants have to be paid in accordance with the law that may be made for the purpose by the parliament. Till such time a law is made, these grants shall be paid under the orders of the president who issues such orders after considering recommendations of the finance commission. Thus, pre-requisites for payment of grants-in-aid to the states are as under:-

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01. It has to be paid to the states in need of such assistance.
02. Different sums have to be paid to different states depending upon their requirement.
03. For payment of such sums of grants-in-aid law of the parliament is required which law shall prescribe the sums payable during each year and also other details.
04. Till such time law indicated at 03 above is made by the parliament, this authority shall be exercised by the president. So far no such law has been made. Payment of grants-in-aid are made under the orders of the president.
05. Grants-in-aid thus paid is charged on the consolidated fund of India.

2.6.3. Apart from general purposes grants-in-aid, the aforementioned article also provides for payment of specific grants required for specific purposes from and out of the consolidated fund of India i.e. for financing developmental schemes as may be undertaken by the states with the approval of the government of India for promotion and welfare of the scheduled tribes and tribal areas for raising level of administration therein to that of the rest of the areas of the State.

2.7.0. Finance Commission

2.7.1. **Constitution and terms of reference**:- Constitution, terms of appointment and duties of the finance commission are described in Art 280 of the Indian constitution which is quoted hereunder: -

"(1) The President shall, within two years from the commencement of this Constitution and there after at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President.

(2) Parliament may by law determine the qualifications, which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected.

(3) It shall be duty of the Commission to make recommendations to the President as to –

(a) the distribution between the Union and the States of the net proceeds of the taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds;

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(b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;

(bb) the measures needed to augment the Consolidated Fund of State to supplement the sources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State;

(c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;

(d) any other matter referred to the Commission by the President in the interests of sound finance.

(4) The commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by Law confer on them".

2.7.2. **Objectives of finance commission**:- The purpose and the main objective of setting up of finance commission has been summed up by the sixth finance commission in these words.

"The purpose of the finance commission as envisaged in the constitution is primarily to facilitate a periodical assessment of the financial needs of the states and the formulation on an objective basis proposals for transfer of resources from Centre to the States through devolution of taxes and grants-in-aid. But an incidental and by no means insignificant advantage of the appointment of a Finance Commission has generally been to rekindle interest in issues pertaining to financial relations between centre and the states and to promote an enlightened national debate on several facts of our federal fiscal set up."

2.7.3 According to the twelfth finance commission-covering period 2005-2010, the scheme of fiscal transfers should " serve the objectives both of equity and efficiency, and result in fiscal transfers that are predictable and stable. These transfers, in the form of tax devolution and grants, are meant to correct both the vertical and horizontal imbalances. Correcting vertical imbalance relates to transfers from the central government to the state governments taken together, whereas the correction of horizontal imbalance is concerned with the allocation of transfers among the state governments. The vertical imbalance arises since resources have been assigned more

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to the central government and states have been entrusted with the larger responsibilities. The horizontal imbalance has its roots in the differential capacities and needs of the state as also the differences in the costs of providing services. In India, not only the number of states is large, they differ in various respects such as area, size of population, income, tax base, and mineral and forest resources. Resource gaps may arise because states have inadequate capacities also because the revenue effort is deficient in relative terms. While the former may need to be taken into account for correcting the horizontal imbalance, the latter should not qualify for such correction.

2.7.4. The finance commission has been authorized to determine their own procedure for performance of its duty. Obviously, this provision has been made in the constitution to ensure independent functioning of this institution.

2.7.5. The finance commissions appointed from time to time apart from performing constitutional duty have also been given responsibility of looking into and creating an atmosphere of developing sound finance for the union and the states within given parameters. The presidential orders constituting finance commission therefore prescribe guidelines objectively designed to improve the financial health of the state to be observed while evolving the criteria and fixing of amounts payable to the states from and out of the consolidated fund of India as grants-in-aid. This is done by invoking clause (3)(d) of art 280 of the constitution. Obviously, this becomes essential in order to ensure that a trend of dependence on grants-in-aid by the states is arrested. The states have to be induced to take effective steps to improve their financial health which is highly essential for the overall economic growth of the country. In this context the guidelines prescribed from time to time have varied. In the earlier stages, fixing of quantum of grants-in-aid payable to the states was, interalia subjected to their efforts for raising additional resources for funding of developmental schemes through planning process. The fourth finance commission was required to give consideration to the scope of economy consistent with efficiency in the administrative expenditures while making recommendations for giving of grants-in-aid to the states. The successive finance commissions were given a bigger canvas for development of foundations for better financial management using the tool of giving of grants-in-aid to the state. By and large these are:

- further expenditures likely to devolve on the states in servicing of their debt obligations.

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- requirements for upgrading of standards of general administration,
- maintenance requirements of completed plan schemes; and assistance available for implementation of developmental plans.

2.7.6. Such parameters were made more comprehensive by including in them giving of regard to the resources of the central government and its expenditure obligations on civil administration, defense and border security, debt servicing and other committed expenditures and liabilities while making recommendations in regard to both the taxes to be shared by the union and the states and giving of grants-in-aid to the states.

2.7.7. An opinion has been generated that by laying such specific guidelines a continued attempt is made to give certain direction to the thinking of the finance commission which may not be in keeping with the provision of the Indian constitution. The commission should perform the duty given to it and has to have a free hand in evolving its own procedures to accomplish the purpose of devolution of resources from centre to the states strictly in keeping with the provisions of the constitution. The opinion is not well founded because art. 280 of the constitution authorizes the president to refer any matter to the finance commission in the interests of the sound finance of the country. Economic development and fiscal management as a result thereof, change from time to time. It is , therefore, necessary that every changed environment is addressed to find out solutions to the new challenges.

2.7.8. **GIA to be recommended by the Finance Commission**: The finance commission, while making their recommendations with regard to payment of grants-in-aid to the states does not take into consideration the financial requirements for financing of developmental plan or fixing of plan outlays. This is looked after by the planning commission of India as discussed subsequently in this chapter.

2.7.9. The finance commission examines non-plan budgetary requirements of the states, which includes maintenance requirements of the completed plan schemes. The third finance commission had tried to evolve an integrated approach so that both non-plan and plan requirements of the states are taken into consideration while recommending quantum of grants-in-aid. It was held that this financial support to the states should cover seventy five percent of

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the revenue component of a states plan. These recommendations were not accepted, obviously, because it would lead to conflicts with the operation of the planning commission, an authority to take a holistic view of the developmental requirements of the country, formulation of schemes and programmes, their implementation and evaluation.

2.7.10. By and large, the emphasis of the finance commission in working out their proposals for payment of grants-in-aid to certain states has been on meeting their budgetary gaps worked out on the basis of the forecasts of revenue and expenditure prepared for the period to be covered by the recommendations of the commission in respect of each of the states.

2.7.11. In the earlier periods the budgetary gaps would be restricted to the non-plan revenue account deficits only. The seventh finance commission made a departure from this practice and started taking into account the capital account requirements also for making recommendations for giving of grants-in-aid to the states under art 275 of the Indian constitution. According to this commission the operative part of this article speaks of "sums" which shows that the expression grants-in-aid of revenues does not limit giving of grants to cover the revenue deficit only. This finance commission accordingly recommended payment of grants-in-aid for capital expenditure also which in aggregate amounted to Rs. 185.39 crores for specified states, while dealing with upgradation of the standards of administration. With the passage of time, these capital grants given pursuant to the recommendations of the finance commission to different states are treated as a source for funding of the plan outlays and for this purpose the outlays fixed for development plans of the respective states by the planning commission of India are increased correspondingly. It is now made compulsory that the grants recommended and given for specific purpose are utilized strictly for the purpose(s) for which these are made available which means that any unspent balance out of such grants lapses or has to be refunded/adjusted by the government of India in the subsequent years. This is done to ensure purposeful utilization of grants-in-aid given to the states for specific purpose(s).

2.7.12 The amount of grants-in-aid to be recommended for certain states are worked out by the finance commission after taking into consideration a number of factors, which prominently include: -

- level of social services reached in a state,

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- standards of administration in various areas of operation of a state,
- special disabilities of a state,
- growth of states tax and non-tax revenues, and
- level of indebtedness.

The exercise also aims at finding out as to how a state is behaving in its various economic indicators vis-à-vis their national average. The abnormalities if any, are analyzed and recommendations made for their correction which are given effect to in the forecasts that are worked out by the finance commission to find out gap between receipts and expenditures to recommend the amount of grants-in-aid that should be paid to a state. This normative approach adopted by the finance commission vary from time to time depending upon various considerations relevant to the public finance of the country at the time when it is constituted. The finance commissions are interalia called up on to look into and make recommendations in the following areas also: -

01 measures needed to augment consolidated fund of a state to supplement the resources of the panchayats in the state on the basis of the recommendations made by the finance commission of the state;

02. measures needed to augment consolidated fund of a state to supplement the resources of the municipalities in the state on the basis of the recommendations of finance commission of the state;

03. the requirements of the states for making plan and non-plan revenue expenditure keeping in view the need for generating surplus for capital investment and reducing fiscal deficits;

04. suggesting ways and means by which governments collectively and severally, bring about re-structuring of public finances so as to restore budgetary balance and maintain macro economic stability; and

05. drawing monitorable fiscal reforms programme aimed at reduction of revenue deficit of the states and recommending the manner in which the grants to the states to cover the assessed deficit in their revenue account can be linked to progress in implementing the reforms.

2.7.13. While dealing with 01 and 02 above in respect of the states where finance commission has not been appointed or if appointed has not given any recommendations, the commission is required to make its own assessment and while doing so is required to give due regard to –

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01. provision required to be made for the emoluments and terminal benefits of the employees of the local bodies including those of teachers;
02. existing powers of the panchayats and municipalities to raise financial resources including those by way of a rising of additional taxes by these bodies;
03. the powers, authority and responsibility transferred to panchayats and municipalities.

2.7.14 The twelfth finance commission who had the benefit of experience of fifty five years of the operation of the scheme of devolution of resources from centre to the state at their command, have made the following observations with regard to GIA transfers to the state under the constitution:-

- Grants flow from the centre to the state in three ways:-
  - under recommendations of the finance commission
  - central assistance for state plans regulated by the planning commission.
  - discretionary grants given by the central ministries for non-plan purposes.
- Needs of the states have to be assessed in relation to the services provided by them to the public in different spheres, their average standard according to the desirable norms and how far they are able to meet these from their own revenue.
- Determination of the states development plans and their funding should continue to be discussed and settled by the planning commission. However, the system of imposing ratio between loans and grants for extending plan assistance to the state, as at present should be modified. The planning commission should confine itself to giving of grants only and leave it to the states to decide as to how much they wish to borrow and from whom.
- The grants have several unique characteristics as an instrument of fiscal transfer, like :-
  - they are determined in absolute terms and the amounts are therefore, known,
  - they can be targeted better,
  - in determining these better account can be taken of cost disabilities and redistributive considerations,

2.7.15 Based on these considerations this finance commission has identified ten items of GIA for the period 2005-2010, distributed among different states, as reflected in the following table:-

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		(Rs. in crores)
01.	Post-devolution non-plan revenue deficit :	56,856
02.	Health sector	5,887
03.	Education sector	10,172
04.	Maintenance of roads & bridges	15,000
05.	Maintenance of buildings	5,000
06.	Maintenance of forests	1,000
07.	Heritage conservation	625
08.	State specific needs	7,100
09.	Local bodies	25,000
10.	Calamity relief	16,000
	Total	**1,42,640**

2.7.16. **Distribution of certain taxes and duties falling under divisible pool:-** Apart from making of recommendations with regard to payment of sums to the states in need of assistance as grants-in-aid, the finance commission has also to recommend the principles that should govern distribution between the union and the states, the net proceeds of certain taxes and duties falling under divisible pool. The twelfth finance commission, in their report has given historical perspective in this behalf, which is summed up as under:

01. Prior to the enactment of the constitution (eightieth amendment) act, 2000, the sharing of the union tax revenues with the states was in accordance with the provision of articles 270 and 272, as these stood then. While article 270 provided for the compulsory sharing of the net proceeds of the income tax (excluding corporation tax), article 272 permitted for sharing of the net proceeds of union duties of excise (excluding duties of excise on medicinal and toilet preparations), if provided by the parliament by law. Consequently, the principles adopted for revenue sharing differed between the two taxes significantly.

02. The eightieth amendment of the constitution altered the pattern of the sharing of union taxes in a fundamental way. Under this amendment, article 272 was dropped and article 270 was substantially changed. The modified article 270 provides for sharing of all the taxes and duties referred to in the union list, except the taxes and duties referred to in articles 268 and 269, surcharges on tax and duties referred to in article 271 and any cess levied for specific purposes. There is considerable merit in the change, as it give greater freedom and flexibility to the centre in pursuing the tax reforms in an integrated manner and enables the states to share the aggregate buoyancy of central taxes.

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03 Eighty-eighth constitutional amendment that is of relevance to centre-state fiscal relations was enacted in January, 2004. This relates to service tax and provides for a specific entry in the constitution to authorize levy of service tax. The central government has been imposing and collecting this tax as a residual item under entry no. 97 in the union list and the net proceeds thereof are distributed between the centre and the states as per article 270 of the constitution on the recommendation of the finance commission. Now tax on services are to be levied by the central government and the net proceeds of such taxes to be collected and appropriated by the centre and the states in accordance with such principles of collection and appropriation as may be formulated by parliament, by law. Further, in the seventh schedule to the constitution, an item, 'taxes and services' has been inserted in the union list under entry no. 92C, thereby the power to tax services has been clearly assigned to the central government. A new article 268A, has been inserted, whereby service tax is to be taken out of the divisible pool of central taxes and consequently out of the jurisdiction of the finance commission.

04 Prior to the eightieth amendment of the constitution, only two central taxes were sharable, non-corporate income tax and union excise duties besides a tax rental arrangement with respect to additional excise duties in lieu of sales tax on three commodities. A brief review of sharing of the taxes is given below.

Income Tax: By the time the first finance commission was constituted, the share of states in the 'net proceeds' of income tax had already been fixed at 50 percent. The first finance commission raised the share to 55 percent owing to increase in the number of states. The second, third and fourth fiancé commissions raised the share gradually to 60, 66,67 and 75 percent respectively, to compensate for the non-inclusion of corporate income tax and surcharge. The fifth finance commission did not raise the share, but recommended inclusion of advance tax collections and arrears thereof in determining the proceeds of income tax during a financial year. The sixth commission raised share of the states to 80 percent, as the arrears of advance collections were not available any more. The seventh commission further increased the share to 85 percent in response to the grievance of the states that the centre had raised the union surcharge as a revenue measure rather

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than for meeting any specific union purposes, thus depriving the states of a share in the increased revenue. While the eighth and ninth commissions did not alter the positions, the tenth finance commission felt that the authority that levies and administers a tax should have a significant and tangible interest in its yield and accordingly revised the share of the states in the proceeds of income tax downward to 77.5 percent, but increased the share in the net proceeds of the union excise duties to protect the level of overall devolution to the states.

Union excise duties:-There were 12 important commodities subject to union excise duties in the year 1951-52. The first finance commission felt that it was advisable to share the excise revenue from a selected number of commodities of common consumption that yielded sizeable revenue for distribution. Accordingly, the commission recommended sharing of the excise on three commodities – tobacco (including tobacco products), matches and vegetable products and the share was fixed at 40 per cent. The second finance commission increased the number of commodities for sharing the excise duty revenue to 8 but reduced the share to 25 percent. While the coverage of commodities was expanded by the third and fourth commissions, the share was reduced to 20 percent. The fifth and sixth commissions, while keeping the share at 20 percent, extended the shareable excise duties to special and auxiliary duties as well. The seventh finance commission doubled the share with a view to reducing the elements of grants-in-aid. The eighth commission increased the share by adding additional 5 percent, which was to be distributed among the deficit states. The tenth commission further raised the share of the states to be 47.5 percent with 7.5 percent distributed among the deficit states.

Sharing central taxes in aggregate: The tenth finance commission in its alternative scheme of tax devolution suggested that instead of sharing of individual taxes, the states may have a share in the total net proceeds of all central taxes excluding surcharges and cesses. In determining the share of the states in the total net proceeds of the central tax revenues, the commission distinguished between shares in income tax, basic excise duties and grants in lieu of tax on railway passenger fares as a proportion of central tax revenues on the one hand, and the share of additional excise duties in lieu of sales tax in

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respect of items covered by tax rental arrangement on the other. The commission accordingly, recommended that the share of states in the gross receipts of central taxes should be 26 percent, and until the tax rental arrangement is terminated, a further share of three percent of the gross tax receipts of the centre to compensate for the additional excise duties in lieu of sales tax.

05. The eleventh finance commission, while considering the issue of vertical devolution of the central tax revenues, reviewed the past trends in the aggregate share of states in the net proceeds of all union taxes and duties, excluding surcharge and cesses during the last two decades. It was observed that the share of the states in all union taxes and duties (worked out on the basis of share of all states in the union excise duties and income tax recommended by successive finance commissions) fluctuated between 26 and 17 percent (in 1993-94). The year-to-year fluctuations had been significant even within the devolution period covered by the same finance commission, largely due to fluctuations in the rates of growth of income tax and union excise duties, the only taxes shared with the states before the eightieth amendment to the constitution. After completing the assessment of the central resources and state finances for the period, from 2000-01 to 2004-05, the commission recommended that the share of the states be fixed at 28 percent of the net proceeds of all taxes and duties referred to in the union list, except the taxes and duties referred to in articles 268 and 269, and the surcharges and cesses, for each of the five years starting from 2000-01 and ending in 2004-05. The eleventh finance commission further noted that as a consequence of the amendment, which interalia deleted article 272, additional excise duties levied under the additional excise duties (goods of special importance) act, 1957, had become part of the revenue receipts of the central government and were shareable with the states. It was felt that there was a need for a review of the earlier arrangement and pending such a review, the commission recommended that 1.5 percent of all shareable union taxes and duties be allocated to the states separately and its inter se distribution among the states may be done in the same manner as the distribution of 28 percent of the net proceeds. If any state levied and collected sales tax on the commodities covered under this act, it would not be entitled to any share from this 1.5 percent brought the total tax devolution recommended by

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the eleventh finance commission to 29.5 percent of the net proceeds of all shareable central taxes and duties.

06 The devolution of resources from centre to the states during the period covering recommendations of seventh finance commission to eleventh finance commission (first two years) is tabulated as under: Transfers of taxes and duties under divisible pool from Centre to States are as percentage of Gross Revenue Receipts of the Center.

Year	Finance Commission Transfers				Other transfers		Total trans-fers (4+7)
	Share in central tax	Grants	Total transfers through finance commission (2+3)	Grants thr. Planning commission	Non-plan grantsNon-statutory)	Total other trfrs (5+6)	
1	2	3	4	5	6	7	8
VII FC	22.39	1.96	24.35	12.11	1.66	13.77	38.11
VIIIFC	20.25	2.52	22.77	13.56	1.54	15.10	37.86
IX FC	21.37	3.42	24.79	14.48	1.06	15.54	40.33
X FC	21.40	2.34	23.75	10.57	0.63	11.19	35.79
XI FC	20.93	5.20	26.13	10.39	0.82	11.21	37.20

07. In the above back ground the twelfth finance commission has made recommendation for vertical devolution as also horizontal sharing. Vertical devolution refers to determining share of the states in totality in the divisible pool of the central taxes. On the other hand, horizontal sharing involves fixing of the *inter se share* of the states in this pool. As regards vertical devolution, this finance commission is of the view that while dealing with this aspect it is necessary to look at the level of over all transfers relative to centre's gross revenue receipts, the relative balance between tax devolution and grants, and feasible redistribution that can be undertaken in the *inter se* share of states in the tax devolution. It has also been held that grants provide an effective mechanism to reach the equalization objective. In view of this, the share of states in the divisible pool of the central tax the following criteria has been followed:-

- Additional excise duties in lieu of sales tax on textiles, tobacco and sugar be treated as part of general pool of central taxes.
- Share of the states in the net proceeds of the shareable central taxes be 30.5% as against 29.5% fixed by the eleventh finance commission.

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- In case the states are allowed to levy sales tax (or VAT) on textiles, tobacco and sugar, the proceeds of shareable central taxes will be 29.5% only.
- The indicative amount of over all transfers to the states in the central gross revenue receipts should be 38% instead of 37.5% fixed by the eleventh finance commission.

08. As regards the determination of the horizontal sharing i.e, inter se shares of the states, the basic aim of the finance commission transfers in the past has been to (i) to correct the differentials in revenue capacity and cost disability factors inherent in the economics of states and (ii) to foster fiscal efficiency among the states. The criteria used in the past for these purposes can be grouped under: (a) factors reflecting needs, such as population and income measured either as distance from the highest income or as inverse; (b) cost disability indicators such as area and infrastructure distance; and (c) fiscal efficiency indicators such as tax effort and fiscal discipline, each of these having the following prominent distributive convergent criteria:-

- **Need factors** :Population and income distance
- **Cost disability:** Area and infrastructure index
- **Fiscal efficiency**: Tax effort and fiscal discipline as measured by ratio of own tax revenue to revenue expenditure.

This finance commission has accordingly evolved weights for the above criteria as indicated in the following table:-

Criteria and weights

Criteria	Weight(%)
Population	25.0
Income distance	50.0
Area	10.0
Tax effort	7.5
Fiscal discipline	7.5

The service tax is not leviable by the centre in the J&K state. Therefore, the commission has fixed *inter se* distribution exclusive of service and for service tax separately.

2.7.17. Apart from dealing with the issues of distribution of taxes and duties as between union and the states and giving of grants-in-aid to certain states, the finance commission also examines and makes recommendation on various other important public finance issues related to a federal set up. The scope of the issues to be handled by the finance commission should and vary from time to time obviously,

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because the economic and financial considerations change from time to time in keeping with various relevant factors, local, national and international. For the time being, in the Indian conditions, the finance commission examines and gives recommendations on important proposition like augmenting resources of local bodies, regulation of expenditures on natural calamities, management and implications of the debt obligations and upgradation of the standards of administration in different areas of operations and different geographical or sectoral formations. The objectives of such studies and the resultant conclusions known as at present are briefly described hereunder.

2.7.18 **Local Bodies :** The eleventh finance commission has expressed the view that the measures to augment the consolidated funds of the states for supplementation of the resources of the panchayats and the municipalities need not necessarily involve transfer of resources from the centre to the states. Once the state finance commissions complete their task, the central finance commission is duty bound to assess and build into the expenditure stream of the states, the funding requirements for supplementing resources of the panchayats and the municipalities. Measures needed for augmentation of the consolidated funds of the states for this purpose could be determined accordingly. The transfer of duties and functions listed in the eleventh and twelfth schedules of the constitution would also involve concomitant transfers of staff and resources. Transfer of duties and functions should, therefore, not entail any extra financial burden. Nevertheless, the commission recommended a grant of Rs. 100 per capita of rural population as per the 1971 census for the panchayats and Rs. 1,000 crore for the municipalities to be distributed amongst the states on the basis of the inter-state ratio of slum population derived from 1971 census. The twelfth finance commission has made the following recommendations on the subject

- The best listed practice may be considered for adoption by states to improve the resource of panchayats.
- The states should avoid delays in the constitution of the state finance commissions (SFCs).
- The SFC reports should be readily available to the central finance commission. As the periodicity of constitution of the central finance commission is predictable, the states should time the constitution of their SFCs suitably.
- SFCs must be constituted with people of eminence and competence with qualification and experience in the relevant fields.

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- The convention established at the national level of accepting the principal recommendations of the finance commission without modification, should be followed at the state level also.
- The SFCs must clearly identify the issues which require action on the part of the central government to augment the consolidated fund of the state.
- Ceiling on professional tax should be raised.
- It is desirable that the SFCs follow the procedure adopted by the central finance commission for transfer of resources from the centre to the states in respect of resource transfers from state government to local bodies.
- While estimating the resources of the local bodies, the SFCs should follow a normative approach in the assessment of revenues and expenditure rather than making forecasts based on historical trends.
- A permanent SFC cell may be created in the finance department of state governments.
- A sum of Rs. 20000 crore for the panchayats and Rs. 5000 crore for the municipalities be provided as grants-in-aid to augment the consolidated fund of the states for the period 2005-10
- Of the grants allocated for panchayats, priority should be given to expenditure on the operation and maintenance cost of water supply and sanitation.
- At least 50 percent of the grants-in-aid provided to each state for the urban local bodies should be earmarked for the scheme of solid waste management through public private partnership.
- Local bodies should be given support for building data base and maintenance of accounts. States should assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation given to them.
- Separate grants-in-aid for the normal and the excluded areas has not been proposed. It is for the state concerned to distribute the grants recommended for the state among the local bodies including those in the excluded areas in a fair and just manner.
- No conditionality over and above those recommended should be imposed by the central government for releasing the grants-in-aid under this category.

2.7.19. **Natural calamities**: - Occurrence of natural calamities of varied severity is not uncommon in India. These calamities, if of unusual

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character and unprecedented disaster, have the potential of disturbing the financial forecasts in a year and it becomes difficult to take care of such unforeseen eventualities. An arrangement which could enable setting apart a predetermined sum so that it, over a period of time aggregates into a substantial amount to be invested into guilt edged securities becoming available as and when needed. Earlier, such arrangements were provided for at the behest of the finance commission, commonly known as 'margin money scheme' in which both the union and the states would participate. The contribution of the central government would be in the form of share in the margin money, advance plan assistance having the components of both loans and grants, special central assistance again given as loans/grants. This assistance would become available to the intending state on the recommendations of a central team which would visit it on the request of the state when such a situation would arise. The ninth finance commission for the first time recommended establishment of a calamity relief fund for each state to which centre and the states were to contribute, in the ratio of 75:25. This arrangement was further supplemented by the recommendation of the tenth finance commission for setting up of the national fund for calamity relief also in the ministry of agriculture. According to this commission a calamity of rare severity should be treated as a national problem and dealt with accordingly by operating upon the national fund for calamity. On such a occasion help from other states, both financial and material should also come forward. This finance commission has also suggested that size of this fund should be Rs.700 crores to which centre and the states would contribute in the ratio of 75:25. The eleventh finance commission has reviewed this scheme and given their recommendations, which are summarized as under as per their report: -

01 The scheme of calamity relief fund (CRF) be continued with contributions from the centre and the states in the ratio of 75:25.

02. The CRF should be used for meeting the expenditure for providing immediate relief to the victims of cyclone, drought, earthquake, fire, flood, and hailstorm etc.

03. Expenditure on restoration of infrastructure and other capital assets, except those which are intrinsically connected with relief operations and connectivity with the affected areas and population should be met from the plan funds on priority.

04. Medium and long-term measures be devised by the concerned ministries of the government of India, the state government and the planning commission to reduce, and if

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possible, eliminate, the occurrences of these calamities by undertaking developmental works.

05. The CRF should be kept out of the public account of the state and should be invested in a manner approved by the ministry of finance. If for some reasons, it is not possible to keep the fund in a nationalized bank or invested in a manner approved by the ministry of finance, it may be kept in the public account of the state, on which interest should be payable by the state government at a rate which is not less than the market rate of interest as indicated by the reserve bank of India.

06. The balance in the fund at the end of eleventh finance commission period has been taken as opening balance on 01.04.2005.

07. The state level committee under the existing scheme may continue to function and take all decisions related to the financing of relief expenditure subject to general guidelines issued by the ministry of agriculture.

08. The union ministry of agriculture will continue to be the nodal ministry for coordinating relief works, and for arranging physical and financial support including the assistance of the union ministries of Defence, Railways etc.

09. A committee of experts should review the list of items approved for incurring expenditure from the CRF. The Committee should have representatives from the state governments. Apart from the general list of items applicable to all states, state specific list may also be drawn up in consultation with the representative of the concerned state governments.

10. The existing arrangement for fixing the norms of expenditure on each approved item may continue. In case the norm is exceeded, the additional expenditure may be met from the budget of the state government and not from the CRF.

11. The release of the funds from the centre to the CRF of each state may be done in two installments, viz. on 1st of May and 1st of November, each year. The installment due on 1st May should be released only after receiving from the state government a certificate indicating that the amount received during the preceding financial year has been credited to the CRF, accompanied by a statement giving the updated expenditure and the balance amount available in the CRF. This statement itself should be treated as utilization certification.

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12. The accountants general of the states should ensure that only the expenditure on approved items as per norms is met out of the CRF.
13. The scheme of national fund for calamity relief (NFCR) should be discontinued, in view of the difficulty in evolving an unambiguous definition of calamity of rare nature, and the difficulty in providing adequate financial assistance to the state from the limited amount available in the fund.
14. A national centre for calamity management (NCCM) under the ministry of agriculture be established to monitor all types of natural calamities, including calamities of rare severity, without any specific reference from the central or the state governments. This committee should be empowered to make recommendation to the central government as to whether a calamity is of such severe nature that would call for financial assistance to the affected state over and above what is available in the CRF or other plan/non-plan sources.
15. Any financial assistance provided by the central government to the states in this regard, should be recouped by levy of a special surcharge on central taxes. Collections from such surcharge/cess should be kept in a separate fund created in the public account of the central government, to which it should contribute Rs. 500 crore as the initial core amount. Outgo from this fund should be recouped by levy of the surcharge.
16. This national centre should also develop expertise for providing training to the states' person power on a regular basis, keep an inventory of physical resources available at various places for meeting the calamities, and undertake monitoring and documentation.
17. Every state should develop an inter-disciplinary cadre under the relief commissioner comprising 200 to 300 persons who could be deployed for relief works on the occurrence of a national calamity within the state or in any other part of the country.
18. Every state should prepare an annual report on natural calamities relating to the preceding financial year, and submit it to the union ministry of agriculture by 30th September every year. The centre's contribution to the CRF of a State, due on 1st November, will be released only after this report has been received.
19. The union ministry of agriculture should bring out a report on the natural calamities and their management, by 31st December every year.

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2.7.20 The twelfth finance commission has made the following recommendations:-

- The scheme of CRF be continued in its present form with contributions from the centre and the states in the ratio of 75:25.
- The size of the CRF for our award period is worked out at Rs. 21333.33 crore.
- Besides cyclone, drought, earthquake, fire, flood and hailstorm, the definition of natural calamity, as applicable at present, may be extended to cover land slides, avalanches, cloud burst and pest attacks.
- The provision for disaster preparedness and mitigation needs to be built into the state plans, and not as a part of calamity relief.
- A committee consisting of scientists, flood control specialists and other experts be set up to study and map the hazards to which several states are subject to.
- The scheme of NCCF may continue in its present form with core corpus of Rs. 500 crore. The outgo from the fund may continue to be replenished by way of collection of national calamity contingent duty and levy of special surcharge.
- The centre may continue to make allocation of food grains to the needy states as a relief measure, but a transparent policy in this regard is required to be put in place.

In order to have an overall view of devolution of resources from centre to the states the following statements are appended to this chapter

- Inter state distribution of GIA under article 275. **(Annexure-2.02)**
- Inter state distribution of net proceeds of income tax. **(Annexure-2.03)**
- Inter state share of divisible union excise duty. **(Annexure-2.04)**
- Inter state distribution of divisible additional duties of excise.**(Annexure-2.05)**
- Inter state distribution of divisible pool of central taxes as recommended by 11th and 12th commissions. **(Annexure-2.06)**

2.7.21 **Debt obligations**: - Servicing of debt obligations has assumed a high importance in the present day requirements of orderly public finance. Raising of loans becomes necessary because it is not possible to mobilize funds from other available sources to the extent these are needed to meet the commitments of governance and

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development on all fronts. This is particularly true about developing countries. Even the developed and advanced states have to resort to the borrowings. After a stage borrowings also become inevitable to service the debts raised earlier. It is necessary that the saving and other public deposits are made productive which can be done only when such available resources are channelised into developmental activities and ventures having a reasonable rate of return. Loan capital makes operation of programmes funded with it more efficient and effective because the managers be-come responsible to ensure suitable return from such investments. In case of projects financed from borrowed capital, the gestation periods are watched carefully to avoid time and cost over runs which if not controlled can disturb the envisaged operational parameters.

2.7.22. In federal set up like in India, management of borrowings and their servicing becomes all the more important because loan raising capacity of the federating units varies. The resources thus available, have to be equitably distributed. The normal resources available to the states are also limited which have therefore, to be supplemented by borrowed capital. Judicious use of this capital, as it should be, also helps in improving the overall economic health of the country.

2.7.23. Borrowings are domestic as also from foreign sources and have to be tapped within a reasonably determined limit and at appropriate time, so that these become sustainable by the economy. Any unplanned move in this direction can sometimes be disastrous not only for the economy of the country but for its sovereignty also.

2.7.24. Borrowings in our country are regulated by arts 292 and 293 of its constitution, which read as under: -

Art 292 "The executive powers of the Union extends to borrowings upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law and giving of guarantees within such limits, if any, as may be so fixed."

Art 293 "Subject to the provisions of this article, the executive powers of a State extends to borrowing within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of such State by law and to the giving of guarantees within such limits, if any, as may be so fixed".'

(2) "The Government of India may, subject to such conditions as may be laid down by or under any law made by Parliament, make loans to any state or, so long as any limit fixed under

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article 292 are not exceeded give guarantees in respect of the loans raised by any State, and any sums required for the purpose of making such loans shall be charged on the Consolidated Fund of India".

(3) "A State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government, or in respect of which a guarantee has been given by the Government of India or by its predecessor Government".

(4) "A consent under clause (3) may be granted subject to such conditions, if any, as the Government of India may think fit to impose"

2.7.25. Articles 292 and 293 refer respectively, to borrowings by the government of India and borrowings by the states. In article 292, a limit on the borrowing as well as on guarantees to be given by the union government can be fixed by Parliament by law. Similarly, article 293 provides that the legislature of a state can fix limits on borrowing by a State as well as limits on guarantees to be given by it. Further, under this article the central government may give loans to states provided the limit on central government borrowing under article 292 is not exceeded. It may also give guarantees in respect of loans raised by any state. Clause (3) of article 293 provides that if any central loan is outstanding with a state, or a loan in respect of which a guarantee given by the central government is outstanding, then a state may not raise any loan without the consent of the government of India.

2.7.26. In view of the above facts, a practice has now been established whereby finance commission examines debt position of the states particularly their indebtedness towards centre. Sustainability of such debts, rational distribution of the available loan capital between union and the states is also examined and commented upon.

2.7.27. Based on the capital expenditure of the states funded from out of the loans received from the central government and its end use, the seventh Finance Commission categorized the loan out-standings of the states towards the government of India as productive, semi-productive and non-productive. The non-productive loans were recommended to be written off as these have not yielded any revenue, which could enable their repayment with interest. The semi productive loans, which have given some return, were recommended to be repaid over a longer period of time (30 years)

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carrying interest at 4.75% per annum. As regards productive loans, these were recommended to be recovered by the government of India from the states in fifteen annual equated installments with interest at 5% per annum. This was done in respect of loans outstanding ending 1978-79. The commission had also recommended that in future loan assistance from centre to the states should be related to the end purpose. The tenth finance commission had recommended a scheme of general debt relief for all states linked to fiscal performance. Improvement of fiscal management was measured by comparing the ratio of revenue receipts (including devolution and grants from the centre) to total revenue expenditure in a given year with the average of corresponding ratios in the three immediately preceding years. The performance of each state was measured against its own past performance. Twice the excess of the ratio over the average ratio of fiscal improvement during the preceding three years was recommended for relief on loans contracted during the period 1989-95 and falling due for repayment after 31st March, 1995.The relief was admissible only to the extent of ten per cent of the amount due for repayment from these loans in any year.

2.7.28. The eleventh finance commission made improvements in the scheme of debt relief as adopted by the tenth commission. The commission has made the following recommendation in this behalf:- "The scheme of general debt relief linked to fiscal performance with respect to central loans relates to improvement in the ratio of revenue receipts of a state to its total revenue expenditure. In our view, the incentives needs to be strengthened for two reasons. One, we are discontinuing the other schemes of debt relief recommended by the Tenth Finance Commission and therefore the States should get an opportunity to get a higher quantum relief by improving their fiscal performance. And two, a higher relief would itself act as an incentive for encouraging better performance. For determining the quantum of relief a factor of 2 was used by the Tenth Finance Commission on the extent of improvement. We therefore propose to enhance this factor to 5 .For the same reasons, we also recommend that the maximum magnitude of the stipulated relief under the general incentive scheme be enhanced from 10 per cent to 25 per cent. In this calculation of revenue receipts the revenue deficit grant under Article 275 recommended by us should not be included .We are excluding it as the Tenth Finance Commission did not recommend revenue deficit grants for 1999-2000 for any State. The grants recommended by us will suddenly improve the revenue balance of the recipient States, which will not be due to any reform

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action taken on their part. Similarly, the revenue deficit grants recommended by us fall in magnitude over time. This will lead to lowering of revenue receipts relative to past years, which may not be attributable to any deterioration in the tax and non-tax receipts. Only those repayments as pertain to fresh Central loans to the States during 1995-00 and as outstanding on 31st March, 2000 will qualify for this relief."

2.7.29 The sustainability by debt of the states has been worked out by the twelfth finance commission with reference to the debt-GSDP ratios and ratio of interest payments to the total revenue receipts. The standard criterion for determining the sustainability of debt of states has been arrive at the acceptable levels of debt-GSDP ratios and the ratio of interest payments to total revenue receipts. An analysis of the relative position of the debt-GSDP ratios of states and the percentage share of each state in the total outstanding debt of states for the year 2002-03, shows the results indicated in the following table:-

Debt-GSDP Ratios and Percentage Share of States in Overall Debt in 2002-03

S.No.	State	Debt GSDP ratio	Share in total debt of states
General Category States			
1	Andhra Pradesh	28.85	7.50
2	Bihar	55.33	4.79
3	Chhattisgarh	25.46	1.20
4	Goa	28.15	0.45
5	Gujarat	33.93	6.61
6	Haryana	27.85	2.70
7	Jharkhand	24.28	1.29
8	Karnataka	25.12	4.72
9	Kerala	36.34	4.65
10	Madhya Pradesh	32.28	4.07
11	Maharashtra	21.56	9.51
12	Orissa	62.93	4.23
13	Punjab	48.51	5.52
14	Rajasthan	45.38	6.31

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15	Tamil Nadu	26.80	6.02
16	Uttar Pradesh	39.08	11.90
17	West Bengal	41.15	10.46

Special Category States

18	Arunachal Pradesh	55.45	0.18
19	Assam	33.91	1.94
20	Himachal Pradesh	63.25	1.71
21	Jammu & Kashmir	53.80	1.65
22	Manipur	43.08	0.31
23	Meghalaya	32.17	0.22
24	Mizoram	81.56	0.27
25	Nagaland	52.10	0.38
26	Sikkim	60.27	0.13
27	Tripura	37.78	0.46
28	Uttaranchal	32.37	0.80

Debt excludes reserve funds and deposits

At the end of 2002-03, all states, except Maharashtra and Jharkhand, have debt-GSDP ratios not exceeding 25 per cent.

2.7.30 In the context of sustainable levels of debt, the eleventh finance commission had recommended that the proportion of interest payments to revenue receipts, including tax devolution and grants, should be reduced to about 18 per cent compared to the then average of 22 per cent. The twelfth finance commission has found that from 2000-01 to 2002-03, the average ratio in respect of 17 states has been above 18 per cent and in respect of 11 states has been above 22 per cent. In terms of this criterion, therefore, 17 out of 28 states have unsustainable levels of debt. The relative position of states is indicated hereunder:-

Interest Payments as a percentage of Revenue Receipts

Percentage of Interest Payments to Revenue Receipts (Average of 2000-01 to 2002-03)	States
Above 35%	Orissa, Punjab, West Bengal
28-35%	Himachal Pradesh, Rajasthan, Uttar Pradesh

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22-28%	Andhra Pradesh, Bihar, Gujarat, Haryana, Kerala
18-22%	Goa, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu
10-18%	Assam, Arunachal Pradesh, Chhattisgarh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttranchal

The aggregate position of the ratio of interest payments to revenue receipts for all states for the year 2003-04 (RE) is found to be 26.07 per cent and in the year 2004-05 it is estimated at 25.19 per cent. The deteriorating debt situation of states is reflected both in terms of the debt-GSDP and the ratio of interest payments to revenue receipts. The position seems particularly grim for the states with high debt-GSDP ratio (i.e. over 35 percent) coupled with high ratios of interest payments to revenue receipts (over 22 per cent).

2.7.31 The twelfth finance commission has followed a two pronged approach to debt relief-firstly, a general scheme of debt relief applicable to all states and secondly, a write-off scheme linked to fiscal performance with a view to providing an incentive for the achievement of revenue balance by 2008-09. In terms of these recommendations consolidation, reschedulement and lowering of interest rate, the debt relief for all states put together, works out to Rs. 21276 crore in interest payments and Rs. 11929 crore in repayments. The state-wise details of debt relief are indicated in **Annexure 2.07.**

2.7.32 Under the debt write-off scheme linked to the reduction of revenue deficit of states, the repayments due on central loans from 2005-06 to 2009-10 after consolidation and reschedulement will be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the said period. In effect, if the revenue deficit is brought down to zero, the entire repayments during the period will be written-off. The scheme of write off shall however, be available only after enacting the fiscal responsibility legislation. The manner in which the scheme will operate is outlined below:-

01. Fiscal performance will be measured with reference to the revenue deficit/revenue surplus, as worked out in absolute numbers by taking an average of three years, viz, 2001-02 (Actual), 2002-03 (Actual), and 2003-04 (RE). This average will be taken as the base year figure for 2003-04.

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02. For states which were in revenue surplus, as per the base year figure (calculated in the manner indicated above), and continue to remain so in the subsequent years till the end of award period, the installment of repayment due on the central loans (after consolidation and reschedulement) may be written-off in each of the years from 2005-06 onwards so long as the revenue surplus of the states does not go below the base year level in absolute terms. In the year the revenue surplus is less than that in the base year figure, no write-off will be permitted.

03. As for the states which were in revenue deficit as per the base year figure, the revenue deficit is expected to be eliminated by 2008-09, i.e. over a five year period. Fiscal performance will be measured by the absolute amount by which the revenue deficit is reduced in each year compared to the deficit in the previous year starting from the base year figure. For the purpose of determining the scale at which the relief will be provided, the ratio of the repayment due by a state during the period 2005-10 (of central loans after consolidation and reschedulement) to the base year revenue deficit figure has been worked out. This determines the amount of write-off of repayment that will be allowed to each state for the reduction of each rupee of revenue deficit. **Annexure 2.08** contains the ratios applicable to the states for determining the quantum of write off.

04. The actual reduction in the revenue deficit in each year over the immediately preceding one would determine the amount of write-off for the state in the repayment due in the immediately succeeding year. This is calculated by multiplying the above-mentioned ratio by the amount of reduction of the revenue deficit. The total amount of write-off in a year will, however, be restricted to the repayments due on the consolidated loans in that year. Further, the write-off will only be admissible if the state reduces the revenue deficit to a level lower than the base year figure.

05. It may be noted that, other things remaining the same, a reduction of revenue deficit is inherent from 2005-06 onwards as a result of the debt relief due to the lowering of the interest rate. Reduction in revenue deficit, which is at least equal to the interest rate relief, shall be treated as an eligibility requirement. Each state will, therefore, be required to achieve, in each year of twelfth finance commission award period, a reduction in the revenue deficit, which, compared to the base year figure, is cumulatively higher than the

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cumulative reduction attributable to the interest relief recommended by twelfth finance commission. Details of the year-wise relief in interest payments and the cumulative reduction in revenue deficit arising out of lowering of interest rate for each state during 2005-10 are at **Annexure 2.09**.

06. If the reduction in revenue deficit in a year is more than the minimum required for the write-off of the entire repayment due in that year, the excess will be carried forward fully to the next year, provided the revenue deficit continued to follow a downward trend in the next year and is lower than the base year figure. On the other hand, if there is an increase in the revenue deficit in the next year, but the revenue deficit is still lower than the base year figure, the entitlement of write-off shall be determined on the basis of improvement from the minimum revenue deficit figure of the previous year that would have given full relief in the previous year.

07. To provide an illustration of the scheme, if state A has the base year revenue deficit figure of Rs. 2000 crore and the repayments due from 2005-2010 are Rs. 1000 crore (or say Rs. 200 crore in each year), the ratio for determining the quantum of write-off will be 0.50 i.e. the state will be eligible for write-off of debt equal to 50 per cent of the amount of reduction in revenue deficit. If the state reduces its deficit by Rs. 300 crore in 2004-05, compared to the base year level, it will qualify for a debt write-off of Rs. 150 crore in 2005-06. If, however, the reduction in deficit is of the order of Rs. 600 crore, although the state will be eligible for a write-off of Rs. 300 crore, the debt write-off in that year will be restricted to the installment of repayment due (i.e. Rs. 200 crore) in the year, the remaining amount (i.e. Rs. 100 crore) qualifying for write-off in the next year subject to the state maintaining or further reducing its revenue deficit in the next year. If on the other hand, in the year 2005-06, the revenue deficit increases by say Rs. 100 crore from 2004-05 level, the net improvement over the base year level would only be Rs. 500 crore. In that event, since an amount of Rs. 400 crore has already been utilized for debt relief in the previous year, the state will qualify for a relief in repayment amounting to fifty per cent of the balance of Rs. 100 crore i.e., a relief of Rs. 50 crore only in 2006-07.

08. If the performance of a state deteriorates in a year, with the revenue deficit registering a higher level over the previous year for which relief in repayment has been availed of, any

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improvement in the succeeding year will be measured, not with reference to that year, but the performance level in the previous year up to which relief has been availed of. If the revenue deficit reduction in that previous year was more than the minimum reduction required to qualify for 100 per cent write-off of repayment, the revenue deficit in that year may be redetermined notionally keeping in view the minimum revenue deficit reduction that would have qualified the state for 100 per cent relief in repayment. To illustrate in continuation of sub para (07) above, if the revenue deficit of state A goes up to Rs. 1800 crore in 2005-06 after being reduced to Rs. 1400 crore in 2004-05, it will not qualify for relief in repayment in 2006-07. Also, its performance in 2006-07 for relief in 2007-08 will be measured from the notional level of 2004-05. The notional level in this case would be Rs. 2000 crore minus Rs. 400 crore i.e. Rs. 1600 crore. This would ensure that no state will be able to avail of relief more than once for the same level of improvement over the base. Nor would any state stand penalized for performing better than the minimum required level in any year.

09. One criticism against the debt relief scheme of the Tenth and Eleventh Commissions has been the time lag involved in granting the benefit. The twelfth finance commission, therefore, recommended that for the purpose of determining the write-off, the revenue deficit indicated in the revised estimates of the preceding year may be used provisionally, so that the relief in respect of a year is available in the immediately succeeding year. Necessary adjustment may be carried out subsequently once the finance accounts become available.

10 Looking at the necessity of containing the fiscal deficit, we further recommend that the benefit of write-off would be available only if the fiscal deficit of the state is contained to the level of 2004-05. If, in any year, the fiscal deficit exceeds this level, the benefit of write-off, even if eligible otherwise, would not be given.

2.7.33 The twelfth finance commission has made the following other recommendations in this behalf.

- Each state must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminating the revenue deficit by 2008-09 and reducing fiscal deficits based on a path for reduction of borrowings and guarantees.

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- Debt relief may not be linked with performance in human development or investment climate.
- As regards the future lending policy, the central government should not act as an intermediary and allow the states to approach the market directly. If, however, some fiscally weak states are unable to raise funds from the market, the centre could borrow for the purpose of on lending to such states, but the interest rates should remain aligned to the marginal cost of borrowing for the centre.
- The moratorium on repayments and interest payments on the outstanding special term loan amounting to Rs. 3772 crore as on 31.03.2000 given to Punjab may continue for another two years i.e, upto 2006-07, by which time the central government must finalize the quantum of debt relief to be allowed in terms of the recommendations of the EFC.
- In respect of relief and rehabilitation loans given to Gujarat from ADB and World Bank through the central government, if the government of Gujarat so desires, the central government may alter the terms and conditions of these loans so that these are available to Gujarat on the same terms on which the external agencies have extended these loans.
- All states should set up sinking funds for amortization of all loans including loans from banks, liabilities on account of NSSF etc. The fund should be maintained outside the consolidated fund of the states and the public account and should not be used for any other purpose, except for redemption of loans.
- States should set up guarantee redemption funds through earmarked guarantee fees. This should be preceded by risk weighting of guarantees. The quantum of contribution to the fund should be decided accordingly.

2.7.34 **Small savings**: - These savings are those which are generated by the government of India through its own organizations operating for this purpose at the national level and through length and breadth of the country through various schemes which generally include post office saving schemes and general provident funds. This is also therefore, a source in which the states have a rightful share. Under the system prevailing presently all small savings are credited to a national small savings fund (NSSF). All withdrawals made by the depositors from time to time, management costs of the fund and interest on the deposits are met from the fund. The net collections are distributed between union and the states in the ratio of 20:80.

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The inter-State share of 80% is determined with reference to the collections made from the respective states and is treated as investment in their special securities. These securities are redeemed from the 6th year over a period of 20 years. The amounts retained by the central government are similarly treated. The rate of interest applicable to these loans as at present is 12.5% per annum. The eleventh finance commission while upholding this scheme have suggested that "it may be further examined if certain economics in cost of collecting are possible in order to find out reasonability of their forecasts for management of these savings which can be secured by introduction of modern technology and other improvements. If so, corresponding reduction in the rate of interest may be made.

2.7.35 **Financial assistance from other countries**: - Art 293(1) of the constitution of India enables the states to borrow upon the security of their respective consolidated funds but this has been subjected to two important conditions namely (1) the borrowings have to be raised within the territory of India and (2) any state, if it has some outstanding towards the government of India on account of any loans raised from them or in respect of any guarantee given on its behalf, their consent to the raising of such loans by a state is a prerequisite, which the central government may give with such conditions as it may deem fit. In other words, financial assistance from other countries of the world becomes available to the government of India and it will be only reasonable that such funding sources are shared by it with the states. The basic consideration for this purpose is that investment of funds from these sources is on viable projects which have a reasonable rate of return and capacity to implement such projects within the prescribed parameters of time, keeping in consideration physical and other established norms. Successful construction and efficient management of such projects is the essence. Identification and execution of these externally aided projects is left to be decided by the planning commission of India and these form part of a developmental plan of the state or the union territory where these are located.

2.7.36 The external assistance is passed on to the states by the government of India as additional plan assistance in the same manner and on the same pattern on which normal plan assistance is given i.e. 70% grant and 30% loan for general category states and 90% grant and 10% loan in case of special category states. The J & K State has been included in the special category from the year 1990-91. The interest on loan component is the same as it is applic-

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able to loan given for funding of state plans. The twelfth finance commission has recommended that external assistance may be transferred to states on the same terms and conditions as attached to such assistance by external funding agencies, thereby making government of India a financial intermediary without any gain or loss. The external assistance passed to the states should be managed through a separate fund in the public account.

2.7.37 **General recommendations**: - It has been seen that all the previous finance commissions have made detailed exercises to meet the various aspects of their terms of reference. Apart from invoking assistance from various financial set ups of the country in the matters relating to fiscal federal, these commissions have also given recommendations for bringing about general improvements in the financial health of the states and the country as a whole. These are summed up in **Annexure-2.10.**

2.7.38 The government of a state and the union are asked to submit forecasts of income and expenditures excluding those related to developmental plan for the period to be covered by their recommendation. In order to find out reasonability of these forecasts actuals for the preceding five years are also required to be supplied as a part of this data. In order to ensure that economical developmental aspect of the states as also that of union government are worked out with reasonable accuracy information on various subsidy points is also obtained. The data thus collected is discussed at various levels and in different forums, besides being subjected to-a-variety of economic developmental determination yard sticks. Comparison between different states is drawn and their approximately to the national level of development already achieved is arrived at. Similarly, to find out real needs of the states the subject matter is thrown open for discussions involving accountant general of the area, universities, trade unions and other prominent and non government organizations. Every citizen is given full opportunity to appear before the commission with his/her viewpoint with regard to the matters brought under focus by the finance commission. Thus, every endeavour is made to ensure that all the studies taken up are directed towards reaching reasonably acceptable conclusions. In this process the commission visits every part of the country and holds discussions/ deliberations with all the concerned authorities, agencies, organizations and the individuals.

2.8.0. Plan assistance from centre to the states

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2.8.1. Apart from transfer of resources from centre to the states, pursuant to the recommendations of the finance commission, financial assistance is also provided to the states for implementation of their developmental plans. This assistance is given on the recommendations of the planning commission of India.

2.8.2. The terms of reference of the commission are based on the directive principles of state policy as embodied in the constitution, which are briefly, put as under: -

01. That the citizens men and women equally have the right to the adequate means of lively hood ;
02. That the ownership and control of the material resources of the community are so distributed as best subserve in common good; and;
03. That the operation of economic system does not result in construction of the wealth and means of production to the common detriment.

2.8.3. Over the period of time the commission has developed as a highest technical authority for purposes of various planning requirements. It has number of divisions dealing with different aspects of their job requirement. Working out of financial resources of the centre and the states constitute one of the important functions of the commission.

2.8.4. Upto end of fourth five year plan, the plan assistance from centre to the states would flow as under: -

01. Plan assistance given to the states on matching basis. This assistance would be available for specific projects or group of schemes. Total cost of such projects/schemes being shared by the centre and states on 50:50 basis. The component of the central share would be both in the form of loans and grants.
02. Plan loans and grants, which would not call for any matching contribution from the states. This assistance would, however be tied up with taking up of specified schemes.
03. Plan assistance given by way of loan would be for identified projects involving by and large, development of infrastructures.

2.8.5. The above arrangement was not considered satisfactory and an opinion was created that flow of funds from centre to the states for

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developmental plans should be based on some norms to be evolved objectively. Accordingly, a committee of chief ministers headed by Prof. Gadgil was constituted by the national development council to make such an exercise. This was done while finalizing fourth five year plan. The committee examined the matter in detail and evolved a formula, known as Gadgil formula for regulating flow of central assistance for the state plans. It envisages: -

01. a lump sum amount be kept apart for meeting requirement of states like Assam, J&K, Himachal, Nagaland and other NEC States,
02. the balance amount distributed among the remaining states as under:

	(%age)
On population	60
Per capital income If below national average	10
Tax efforts	10
Continuing major irrigation & power projects	10
Special problems	10
Total	**100**

2.8.6. The total assistance that would thus become available to the states would have both loan and grant components in the ratio of 70:30. It would also be block assistance to be used by the states according to their requirement of developmental programmes, outlays under certain heads/sub-heads or the schemes however, being earmarked i.e. the assistance meant there for could not be diverted to meet other requirements. This formula was strictly followed for fourth five-year plan. It was also adopted for fifth plan with some modifications. Subsequently however, it was found that the formula is lacking in many respects, chiefly on account of: -

01. Gadgil scheme does not envisage determination of the total amount that may be available from the centre for financing state plans. It on the other hand deals with the procedures to be followed for distribution of the resources by the centre among the states. Thus, it is one sided and does not provide any clue to the states for working out size of their plan realistically.
02. The formula has effected such of the states whose per capital income is just above the national average (dividing line).
03. The loan component of the central assistance, viz 70% has made the states to be in perpetual indebtedness and has increased from plan to plan.
04. It has not given full liberty to the states to formulate their development plans.

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2.8.7. This formula is not followed now the way it was done earlier. The requirement of the planning are changing from time to time and if water tight approach is followed it would defeat the purpose of evolving and adopting a need based developmental plan which can accommodate aspirations of the masses in different geographical situations. Every approach to the planning process has to be highly flexible.

2.8.8. The present position is that centre's involvement in financial needs for implementation of a well thought developmental plan has to be much more meaningful. It is also a fact that sources for plan funding are available from outside the state and national government whose volume is increasing with every improvement in the economic scenario of the country. These resources have also to be channelized into developmental activities in a highly thoughtful manner – the prime considerations being that such investments from non-government funds should yield reasonable return and should be earmarked for different areas of the country in a judicious manner aimed interalia, at narrowing down the inter-state economic development gap and also between haves and have nots. Not only that, such investments should also be conducive to harnessing the local resources, both human and material and thus helping in development of a area in particular and the nation in general. Thus, a highly balanced approach is needed which becomes all the more necessary in the complex conditions of diversity prevailing in the country.

2.8.9. Obviously, such type of exercises have to be a continuous process and it is precisely because of that reason that planning commission of India is a perpetual organization, set up through an executive order so that it could be easily adjusted to the needs of the rapid and balanced economic growth of the country. The proposals worked out by this body are eventually ratified by the national development council in which every state of the country as also the union government is given required and respectable representation. The states have also been given freedom to determine their path of development, by and large keeping their local requirements in view and at the same time looking after the national development needs also.

2.8.10. Integrated orientation of the developmental planning, can be given diagramic presentation as indicated on the page that follows: -

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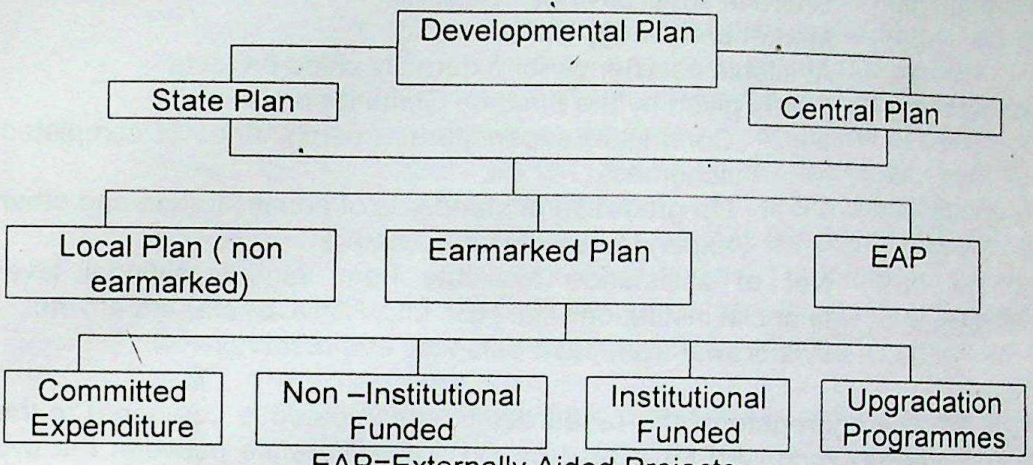

EAP=Externally Aided Projects

2.8.11. Every state government as also the central government have their own planning apparatus who develop their respective development plans which are then reviewed and examined in their consultation by the working groups of the planning commission of India keeping in view all the required developmental requirements and the constraints if any. The various details are thus sorted out and the programmes to be taken up identified with their financial implications etc etc. The working group on financial resources for the plan also engages itself in finding out availability of these resources from various available sources. Two exercises thus made separately are then combined and the developmental plan proposals given a consolidated form. After discussions with respective state governments and central ministries, the proposals are given a final shape for obtaining approval of the union government cabinet and then of the national development council. Thus, enough opportunities are created to focus attention on the proposals before these are finally released for implementation.

2.8.12. Confining discussions to quantifying resources for developmental plans and the role which the central government plays in this regard, it is necessary to keep in mind the procedures generally followed in making this exercise.

2.8.13. Every agency involved in evolving and execution of plan developmental programmes workout the resources (financial) available with it from the various known sources, which are as under: -

01. Balance from current revenues (BCR)
02. Mobilization of possible additional resources (ARM)
03. Net of the miscellaneous capital receipts.

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04. Share in small savings. (net)
05. Market borrowings (net)
06. Available assistance for externally aided projects.
07. Funds given by the Finance Commission for: -
    - Committed expenditures (maintenance of completed schemes)
    - Up-gradation of standards of administration and other expenditures of Capital nature.
08. Net of assistance available from various national level financial institutions like RBI, LIC, HUDCO, Nabard etc etc.
09. Withdrawal from cash balances and reserves.

2.8.14 The aggregate of the resources thus computed is compared to the outlay proposed for a plan period. The difference between the two which is generally negative is proposed to be funded by the central government. The proposals thus drawn are scrutinized by the planning commission of India on the basis of data available with them and also keeping in mind the total size of the outlay that is considered to be the minimum developmental requirement recommended by the working groups of different sector of the plan. In order to establish reasonability of the forecasts of the financial resources, the working group on the subject discuss these with the state governments. Accordingly, need for the total central assistance required for a plan is arrived at. As a part of this exercise, the aggregate resources available with the government of India are also worked out and how much out of these have to be reserved for central plan and centrally sponsored schemes is arrived at so that the balance available for transfer to the states is ascertained. Inter-state distribution is then made which is need based and subject to ratification by the national development council. This element of central assistance for the state plans is in the form of grants-in-aid and loans, the two components being in the ratio of 70:30 respectively in case of general category states and in the ratio of 90:10 in respect of special category states. The J&K state as has been pointed out earlier also has been categorized as a special category state now.

2.8.15. With the passage of time the states have assumed greater responsibilities in the sphere of development and considering limitations for mobilization of new sources at their level, a yawning gap is developing between the resources and the expenditure obligations which consequently result in more and more central assistance to be provided to them on the recommendations of the planning commission who have again to face a real difficult situation

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in allocation of resources among different and competing states. This particularly becomes a tricky exercise because of the fact that the demands are enormous and the resources scares. The commission therefore is required to make the resource exercises at every stage of planning i.e. at the time of formulation of perspective plans, medium term plans, annual plans or their mid term appraisals. In order to reach the appropriate conclusions the commission calls for the required data on all the points mentioned at para 2.8.13. from all the involved agencies. The proforma presently in use for projecting financial resources for plan funding is given in **Annexure-2.11.** The general guidelines for making this exercise are briefly given hereunder: -

01. (BCR) balance from current revenue is arrived at the current level of taxation and sources of non tax revenues. Similarly, the expenditure commitments are also restricted to their current level. Again, the current level of expenditure commitments in respect of non-plan expenditures only are accounted for. The objective being to arrive at genuine gap as between revenue and the non-plan expenditure within the revenue account.

02. While doing the above exercise devolution of resources from centre to the states out of the divisible pool and grants-in-aid receivable by a state pursuant to the recommendation of the finance commission are also accounted for. The underline idea being that all such transfer of financial resources from centre to the state have a statutory character and have therefore to be taken as revenue of the state in the same manner in which other incomes accrue to it from its own sources.

03. Forecasts in respect of (ARM) additional resource mobilization have to be drawn carefully so that all the available resources are tapped reasonably without in any manner effecting their general acceptability as also their consequences on the economic growth of the states. ARM can be from both tax and non-tax sources.

04. While working out net of the miscellaneous capital receipts all the capital receipts including loan raised from cental government, unfunded debts, deposits and advances etc. but excluding small saving loans, market borrowings and institutional finances have to be accounted for. The items which are excluded from miscellaneous capital receipts (net) are shown distinctly in the resource forecast statement because these are vital capital income sources and their inflow for developmental planning is pre-determined after

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taking into consideration various national level requirements. Some of these sources of capital receipts also flow to the states on the recommendations of finance commission and other organizations connected with their mobilization and utilization. These capital receipts are therefore nationally regulated and called for specific reflection in the resource forecasts.

05. Withdrawal from cash balances and reserves means; decrease in the current level of cash balance, increase in the current level of over drafts and ploughing back of the funds held under the specific reserves wherever permissible.

2.8.16 The resources forecasts thus, drawn are subjected to critical scrutiny by the planning commission involving discussions at various levels before their final adoption.

2.8.17 Apart from the state plan schemes for which central assistance becomes available as discussed above there are certain centrally sponsored schemes which form part of the plans right from inception of the planning process in the country. These schemes though executed by the state agencies are wholly or partly financed from the central budget. Flow of funds from centre to states for such schemes have their own pattern. The schemes once approved to be implemented by the state government or its agencies, the assistance becomes available as cent percent loan or cent percent grant or combination for both. The component of central assistance also varies from scheme to scheme. In certain schemes centre bears 100% cost, in others it is shared as between them and the states and the ratio of such sharing is generally 25:75, 50:50 and 75:25. Such a pattern of assistance is guided by the nature of the scheme i.e. in a scheme which is of more national importance the share of central government is higher. On the other hand, in cases where state interests are significant their share is more. Central assistance in such schemes is earmarked. In other words it can not be diverted for other purposes. Similarly, attempt has to be made to utilize the available funds during the year and unspent balance, if any, can be utilized in the following years with the prior concurrence of the central government.

2.8.18 Sometimes central assistance is earmarked for certain schemes in the state plan also and are regulated in the same manner as is the case with the centrally sponsored schemes.

2.9.0. Other financial assistance from centre to states:

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2.9.1. Sometimes central government has to give assistance to the states for such purposes which are not covered by finance or planning commissions. This covers expenditure commitments necessitated due to extraordinary situations like cross border terrorism, rehabilitation needs of the people effected due to law and order situations etc. There are some schemes for which funds flow from central government because such expenditures are normally their obligation. These include construction of national highways and construction of roads of defense and strategic importance. Expenditure on some schemes also qualify for central assistance because funds are generated for such purposes by setting up of developmental funds like funding of works from out of central road fund etc.

2.9.2. Quantum of central assistance for such activities is decided on the basis of the proposals made out for the purpose by the state governments and their acceptance by the union government.

Annexure 2.01

(Ref. para 2.3.1)

List I – UNION LIST

1. Defence of India and every part thereof including preparation for defence and all such acts as may be conducive in times of war to its prosecution and after its termination to effective demobilization. 2. Naval, military and air forces; any other armed forces of the Union. 2A. Development of any armed force of the union or any other force subject to the control of the union or any contingent or until there of in any state in aid of the civil power; powers, jurisdiction privileges and liabilities of the members of such forces while on such deployment .3.Delimitation of cantonment areas, local self-government in such areas, the constitution and powers within such areas of cantonment authorities and the regulation of house accommodation (including the control of rents) in such areas. 4. Naval, military and air force works. 5. Arms, firearms, ammunition and explosives. 6. Atomic energy and mineral resources necessary for its production. 7. Industries declared by Parliament by law to be necessary for the purpose of defence or for the prosecution of war. 8. Central Bureau of Intelligence and Investigation 9. Preventive detention for reasons connected with Defence, Foreign Affairs, or the security of India; persons subjected to such detention. 10. Foreign affairs; all matters which bring the Union into relation with any foreign country.11. Diplomatic, consular and trade representation. 12. United Nations Organization.13.Participation in international conferences, associations and other bodies and implementing of decisions made thereat. 14. Entering into treaties and agreements with foreign countries and implementing of treaties, agreements and conventions with foreign

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countries.15.War and peace 16.Foreign jurisdiction.17.Citizenship, naturalization and aliens.18. Extradition. 19. Admission into, and emigration and expulsion from, India; passports and visas. 20.Pilgrimages to places outside India. 21.Piracies and crimes committed on the high seas or in the air; offences against the law of nations committed on land or the high seas or in the air. 22. Railways. 23.Highways declared by or under law made by Parliament to be national highways. 24. Shipping and navigation on inland waterways, declared by Parliament by law to be national waterways, as regards mechanically propelled vessels; the rule of the road on such waterways.25. Maritime shipping and navigation, including shipping and navigation on tidal waters; provision of education and training for the mercantile marine and regulation of such education and training provided by States and other agencies.26. Lighthouses, including lightships, beacons and other provision for the safety of shipping and aircraft. 27.Ports declared by or under law made by Parliament or existing law to be major ports, including their delimitation, and the constitution and powers of port authorities therein. 28.Port quarantine, including hospitals connected therewith; seamen's and marine hospitals. 29.Airways; aircraft and air navigation; provision of aerodromes; regulation and organization of air traffic and of aerodromes; provisions for aeronautical education and training and regulation of such education and training provided by States and other agencies. 30. Carriage of passengers and goods by railway, sea or air, or by national waterways in mechanically propelled vessels. 31.Posts and telegraphs, telephones, wireless, broadcasting and other like forms of communication. 32. Property of the Union and the revenue there from, but as regards property situated in a State subject to legislation by the State, save in so far as Parliament by law otherwise provides. 33. Courts of wards for the estates of Rulers of Indian States. 34. Public debt of the Union. 35. Currency, coinage and legal tender; foreign exchange. 36. Foreign loans. 37.Reserve Bank of India. 38.Post Office Savings Bank. 39.Lotteries organized by the Government of India or the Government of a State. 40. Trade and commerce with foreign countries; import and export across customs frontiers; definition of customs frontiers. 41.Inter-State trade and commerce. 42. Incorporation, regulation and winding up of trading corporations, including banking, insurance and financial corporations but not including co-operative societies. 43.Incorporation, regulation and winding up of corporations, whether trading or not, with objects confined to one State, but not including universities. 44. Banking. 45. Bills of exchange, cheques, promissory notes and other like instruments. 46. Insurance. 47.Stock exchanges and futures markets. 48. Patents, inventions and designs; copyright; trade-marks and merchandise marks. 49. Establishment of standards of weight and measure. 50. Establishment of standards of quality for goods to be exported out of India or transported from one State to another. 51. Industries, the control of which by the Union is declar-

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ed by Parliament by law to be expedient in the public interest. 52. Regulation and development of oilfields and mineral oil resources; petroleum and petroleum products; other liquids and substances declared by Parliament by law to be dangerously inflammable. 53.Regulation of mines and mineral development to the extent to which such regulation and development under the control of the Union is declared by Parliament by law to be expedient in the public interest. 54.Regulation of labour and safety in mines and oilfields. 55. Regulation and development of inter-State rives and river valleys to the extent to which such regulation and development under the control of the Union is declared by Parliament by law to be expedient in the public interest. 56.Fishing and fisheries beyond territorial waters. 57. Manufacture, supply and distribution of salt by Union agencies; regulation and control of manufacture, supply and distribution of salt by other agencies. 58. Cultivation, manufacture, and sale for export, of opium. 59. Sanctioning of cinematograph films for exhibition. 60.Industrial disputes concerning Union employees. 61.The institutions known at the commencement of this Constitution as the National Library, the Indian Museum, the Imperial War Museum, the Victoria Memorial and the Indian War Memorial, and any other like institutions financed by the Government of India wholly or in part and declared by Parliament by law to be an institution of national importance. 62. The institutions known at the commencement of this Constitution as the Benares Hindu University, the Aligarh Muslim University and Delhi University; *the University established in pursuance of article 371E*; any other institution declared by Parliament by law to be institutions of national importance. 63. Institutions for scientific or technical education financed by the Government of India wholly or in part and declared by Parliament by law to be institutions of national importance. 64. Union agencies and institutions for – (a).professional, vocational or technical including the training of police officers; or (b).the promotion of special studies or research; or (c).scientific or technical assistance in the investigation or detection of crime. 65.Co-ordination and determination of standards in institutions for higher education or research and scientific and technical institutions. 66.Ancient and historical monuments and records, and archaeological sites and remains *declared by or under law made by* Parliament to be of national importance. 67.The Survey of India, the Geological, Botanical, Zoological and Anthropological Surveys of India; Meteorological organizations. 68. Census. 69.Union Public Services; All-India Services; Union Public Service Commission. 70. Union pensions, that is to say, pensions payable by the Government of India or out of the Consolidated Fund of India. 71.Elections to Parliament, to the Legislatures of States and to the offices of President and Vice-President; the Election Commission. 72.Salaries and allowances of members of Parliament, the Chairman and Deputy Chairman of the Council of States and the Speaker and Deputy Speaker of the House of the People. 73.Powers, privileges and

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immunities of each House of Parliament and of the members and the Committees of each House; enforcement of attendance of persons for giving evidence or producing documents before committees of Parliament or commissions appointed by Parliament. 74.Emoluments, allowances, privileges and rights in respect of leave of absence, of the President and Governors; salaries and allowances of the Ministers for the Union; the salaries, allowances and rights in respect of leave of absence and other conditions of service of the Comptroller and Auditor-General. 75.Audit of the accounts of the Union and the States. 76. Constitution, organization, jurisdiction and powers of the Supreme Court (including contempt of such court), and the fees taken therein; persons entitled to practice before the Supreme Court. 77.Constitution and organization (*including vacations*) of the High Courts except provisions as to officers and servants of High Courts; persons entitled to practice before the High Court. 78. Extension of the jurisdiction of a High Court to, and exclusion of the jurisdiction of a High Court from, any *Union territory*. 79.Extension of the powers and jurisdiction of members of a police force belonging to any State to any area outside that State, but not so as to enable the police of one State to exercise powers and jurisdiction in any area outside that State without the consent of the Government of the State in which such areas is situated; extension of the powers and jurisdiction of members of police force belonging to any State to railway areas outside that State. 80. Inter-State migration; inter-State quarantine. 81. Taxes on income other than agricultural income. 82. Duties of customs including export duties. 83. Duties of excise on tobacco and other goods manufactured or produced in India except- (a). Alcoholic liquors for human consumption; (b).Opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry. 84. Corporation tax. 85. Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies. 86. Estate duty in respect of property other than agricultural land. 87.Duties in respect of succession to property other than agricultural land. 88.Terminal taxes on goods or passengers, carried by railway, sea or air; taxes on railways fares and freights. 89.Taxes other than stamp duties on transactions in stock exchanges and futures markets. 90.Rates of stamp duty in respect of bills of exchange, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts. 91.Taxes on the sale or purchase of newspapers and on advertisements published therein. 92. Offenses against laws with respect to any of the matters in this list. 93. Inquires, surveys and statistics for the purpose of any of the matters in this List. 94. Jurisdiction and powers of the courts, except the Supreme Court, with respect to any of

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the matters in this List; admiralty jurisdiction. 95. Fees in respect of any of the matters in the matters in the List, but not including fees taken in any court. 96.Any other matter not enumerated in List II or List III including any tax not mentioned in either of those Lists.

List II – STATE LIST

01.Public order (but not including the use of any naval, military or air force or any other armed force of the Union or of any other force subject to the control of the Union or of any contingent or unit thereof in aid of the civil power). 02.Police (including railway and village police) subject to the provisions of entry 2A of List I.03. Officers and servants of the High Court; procedure in rent and revenue courts; fees taken in all courts excepts the Supreme Court. 04.Prisons, reformatories, Borstal institutions and other institutions of a like nature, and persons detained therein; arrangements with other State for the use of prisons and other institutions. 05. Local government, that is to say, the constitution and powers of municipal corporations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration. 06.Public health and sanitation; hospital and dispensaries. 07.Pilgrimages, other than pilgrimages to places outside India. 08.Intoxicating liquors, that is to say, the production, manufacture, possession, transport, purchase and sale of intoxicating liquors.09.Relief of the disabled and unemployable.10.Burials and burial grounds; cremations and cremation grounds.11.Omitted by the Constitution (42nd Amendment) Act, 1976. 12. Libraries, museums and other similar institutions controlled or financed by the State; ancient and historical monuments and records other than those declared by *or under law made by* Parliament to be of national importance. 13. Communications, that is to say, roads, bridges, ferries and other means of communication not specified in List I; municipal tramways; ropeways; inland waterways and traffic thereon subject to the provisions of List I and List III with regard to such waterways; vehicles other than mechanically propelled vehicles. 14. Agriculture, including agricultural education and research, protection against pests and prevention of plant diseases. 15. Preservation, protection and improvement of stock and preventing of animal diseases; veterinary training and practice.16. Ponds and the prevention of cattle trespass.17. Water, that is to say, water supplies, irrigation and canals, drainage and embankments, water storage and water power subject to the provisions of entry 56 of List I. 18.Land, that is to say, rights in or over land, land tenures including the relation of landlord and talent, and the collection of rents; transfer and alienation of agricultural land; land improvement and agricultural loans; colonization. 19.[Omitted by the Constitution (42nd Amendment) Act, 1976], [transferred to List III, as Entry 17A]. 20.[Omitted by the Constitution (42nd Amendment) Act, 1976].21. Fisheries. 22. Courts of wards subject to the provisions of entry 34 of List I, encumbered and

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attached estates. 23. Regulation of mines and mineral development subject to the provisions of List I with respect to regulation and development under the control of the Union. 24. Industries subject to the provisions of *entries 7 and 52* of List I. 25. Gas and gas-works. 26.Trade and commerce within the State subject to the provisions of entry 33 of List III. 27.Production, supply and distribution of goods subject to the provisions of entry 33 of List III.28. Markets and fairs. 29.[Omitted by the Constitution (42nd Amended) Act, 1976]. 30. Money-lending and money-lenders; relief of agricultural indebtedness. 31.Inns and inn-keepers. 32.Incorporation, regulation and winding up of corporations, other than those specified in List I, and universities, unincorporated trading, literary, scientific, religious and other societies and associations; co-operative societies.33.Theatres and dramatic performances; *cinemas* subject to the provisions of entry 60 of List I; sports, entertainments and amusements.34.Betting and gambling. 35.Works, lands and buildings vested in or in the possession of the State. 36.Elections of the Legislature of the State subject to the provisions of any law made by Parliament. 37. Salaries and allowances of members of the Legislature of the State, of the Speaker and Deputy Speaker of the Legislative Assembly and, if these is a Legislative Council, of the Chairman and Deputy Chairman thereof.38. Powers, privileges and immunities of the Legislative Assembly and of the members and the committees thereof, and, if there is a Legislative Council, of that Council and of the members and the committees thereof; enforcement of attendance of persons for giving evidence or producing documents before committees of the Legislature of the State. 39.Salaries and allowances of Ministers for the State. 40.State Public Services; State Public Service Commission. 41.State pensions, that is to say, pensions payable by the State or out of the Consolidated Fund of the State.42.Public debt of the State. 43.Treasure trove. 44. Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenues.45.Taxes on agricultural income. 46.Duties in respect of succession to agricultural land. 47.Estate duty in respect of agricultural land. 48. Taxes on lands and buildings. 49. Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development. 50. Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India: - (a). Alcoholic liquors for human consumption; (b). Opium, Indian hemp and other narcotic drugs and narcotics, But not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.51. Taxes on the entry of goods into a local area for consumption, use or sale therein. 52.Taxes on the consumption or sale of electricity. 53. Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of entry 92A of List I. 54.Taxes on

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advertisements other than advertisements published in the newspapers *and advertisements broadcast by radio or television.*55.Taxes on goods and passengers carried by road or on inland waterways. 56. Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars subject to the provisions of Entry 35 of List III. 57.Taxes on animal and boats. 58. Tolls. 59.Taxes on professions, trades, callings and employments. 60. Capitation taxes. 61.Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling. 62.Rates of stamp duty in respect of documents other than those specified in the provisions of List I with regard to rates of stamp duty. 63. Offences against laws with respect to any of the matters in this List. 64. Jurisdiction and powers of all courts, except the Supreme Court, with respect to any of the matters in this List. 65. Fees in respect of any of the matters in this List, but not including fees taken in any court.

List III – CONCURRENT LIST

01.Criminal law, including all matters included in the Indian Penal Code at the commencement of this Constitution but excluding offences against laws with respect to any of the matters specified in List I and II and excluding the use of naval, military or air forces or any other armed forces of the Union in aid of the civil power.02. Criminal procedure, including all matters included in the Code of Criminal Procedure at the commencement of this Constitution. 03.Preventive detention for reasons connected with the security of a State, the maintenance of public order, or the maintenance of supplies and services essential to the community; persons subjected to such detention. 04. Removal from one State to another State of prisoners, accused persons and persons subjected to preventive detention for reasons specified in Entry 3 of this List. 05. Marriage and divorce; infants and minor; adoption; wills, intestacy and succession; joint family and partition; all matters in respect of which parties in judicial proceedings were immediately before the commencement of this Constitution subject to their personal law. 06. Transfer of property other than agricultural land; registration of deeds and documents. 07. Contracts, including partnership, agency, contracts of carriage, and other special forms of contracts, but not including contracts relating to agricultural land. 08. Actionable wrongs. 09. Bankruptcy and insolvency.10. Trust and Trustees. 11. Administrators-general and official trustees. 12.Evidences and oaths; recognition of laws, public acts and records, and judicial proceedings.13. Civil procedure, including all matters included in the Code of Civil Procedure at the commencement of this Constitution, limitation and arbitration. 14. Contempt of court, but not including contempt of the Supreme Court.15. Vagrancy; nomadic and migratory tribes. 16.Lunacy and mental deficiency, including places for the reception or treatments of lunatics and mental deficient.17.Prevention of cruelty to animals.18.Adulteration of foodstuffs and other goods.19.Drugs and poisons, subject to the provisions of entry 59

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of List I with respect to opium.20. Economic and social planning. 20A Population control & family planning 21.Commercial and industrial monopolies, combines and trusts. 22. Trade unions: industrial and labour disputes. 23. Social security and social insurance; employment and unemployment. 24.Welfare of labour including conditions of work, provident funds, employers' liability, workmen's compensation, invalidity and old age pensions and maternity benefits. 25.Education, including technical education, medical education and universities, subject to the provisions of entries 63, 64, 65 and 66 of List I; vocational and technical training of labour. 26.Legal, medical and other professions. 27.Relief and rehabilitation of persons displaced from their original place of residence by reason of the setting up of the Dominions of India and Pakistan.28.Charities and charitable institutions, charitable and religious endowments and religious institutions.29.Prevention of the extension from one State to another of infectious or contagious diseases or pests affecting men, animals or plants.30.Vital statistics including registration of births and deaths.31.Ports other than those declared by or under law made by Parliament or existing law to be major ports.32.Shipping and navigation on inland waterways as regards mechanically propelled vessels, and the rule of the road on such waterways, and the carriage of passengers and goods on inland waterways subject to the provisions of List I with respect to national waterways. 33.Trade and commerce in, and the production, supply and distribution of, - (a).the products of any industry where the control of such industry by the union is declared by Parliament by law to be expedient in the public interest, and imported goods of the same kind as such products; (b).foodstuffs, including edible oilseeds and oils; (c).cattle fodder, including oilcakes and other concentrates; (d).raw cotton, whether ginned or unginned, and cotton seed; and(e).raw jute. 33AWeights and measures except establishment of standards.34.Price Control35. Mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied. 36.Factories.37.Boilers. 38.Electricity.39.Newspapers, books and printing presses.40.Archaeological sites and remains other than those declared by or under law made by Parliament to be of national importance.41.Custody, management and disposal of property (including agricultural land) declared by law to be evacuee property.42.Acquisition and requisitioning of property.43.Recovery in a State of claims in respect of taxes and other public demands, including arrears of land-revenue and sums recoverable as such arrears, arising outside that State.44.Stamp duties other than duties or fees collected by means of judicial stamps, but not including rates of stamp duty.45.Inquiries and statistics for the purposes of any of the matters specified in List II or List III. 46. Jurisdiction and powers of all courts, except the Supreme Court, with respect to any of the matters in this List. 47.Fees in respect of any of the matters in this List, but not including fees taken in any court.

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Annexure-2.02 (Ref.Para 2.7.20)
Interstate distribution of GIA under Article 275

(Rs in lakhs)

S.No	States	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
1.	Andhra	100	20.00	4850	36.10	130.02	205.93	-	80.49	341.25	686.45	203093	5214.58
2	Arunachal	-	-	-	-	-	-	-	-	302.79	37.60	139696	1758.22
3	Assam	500	20.25	3675	82.60	204.94	254.53	-	337.68	874.23	712.03	91881	4478.71
4	Bihar	248	19.00	3275	-	-	106.28	-	130.27	1374.27	333.06	179300	7975.79
5	Chhattisgarh	-	-	-	-	-	-	-	-	-	-	-	1987.94
6	Goa	-	-	-	-	-	-	-	-	166.58	77.26	4634	135.39
7	Gujarat	-	-	3900	-	-	-	-	-	-	-	138429	3708.28
8	Haryana	-	-	-	-	-	-	-	-	-	-	65333	1445.98
9	Himachal	-	-	-	-	-	160.96	207.67	239.30	523.09	772.18	489018	11247.14
10	J& K	-	15.00	1350	32.85	143.36	173.49	199.56	397.73	1096.42	1184.13	1157372	13438.57
11	Jharkhand	-	-	-	-	-	-	-	-	-	-	-	3632.82
12	Karnataka	-	-	-	-	-	-	-	-	-	-	113950	4054.40
13	Kerala	-	8.75	3475	40.41	89.37	208.93	-	16.81	412.54	-	81268	3254.51
14	Madhya	150	15.00	2675	13.50	-	-	-	157.69	1047.81	-	173940	5141.37
15	Maharashtra	200	-	-	-	-	-	-	-	-	-	195644	5531.06
16	Manipur	-	-	-	-	-	114.53	146.32	169.25	371.65	350.92	183859	4648.76
17	Meghalaya	-	-	-	-	-	74.67	92.61	138.35	256.18	316.42	167440	2091.16
18	Mizoram	-	-	-	-	-	-	-	-	-	331.19	179016	3194.39
19	Nagaland	-	-	-	35.35	155.90	128.84	218.35	201.33	-	529.78	362186	5839.74
20	Orissa	354	16.75	6575	145.90	209.34	304.73	136.92	282.44	-	371.74	172786	5273.30
21	Punjab	689	11.25	1100	-	-	-	-	20.00	-	-	111216	4913.59
22	Rajasthan	119	12.50	3575	33.65	102.98	230.53	-	96.11	-	33.45	299275	4643.91
23	Sikkim	-	-	-	-	-	-	35.72	40.30	-	105.69	94149	436.20

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24	Tamil Nadu	-	-	3200	34.20	45.64	-	-	-	-	-	133671	4135.39
25	Tripura	-	-	-	-	-	112.50	136.57	201.64	-	488.78	252837	5790.91
26	Uttar Pradesh	-	-	800	-	-	198.83	-	108.18	-	982.00	400774	15262.00
27	Uttaranchal	-	-	-	-	-	-	-	-	-	-	-	6432.12
28	West Bengal	400	19.25	3400	-	145.24	234.86	-	569.98	-	-	467976	7573.37
29	Mysore	200	30.00	3150	91.20	35.94	-	-	-	-	-	-	-
30	Madhya Bharat	54	-	-	-	-	-	-	-	-	-	-	-
31	Patila & East Punjab	28	-	-	-	-	-	-	-	-	-	-	-
32	Sourashtra	-	-	-	-	-	-	-	-	-	-	-	-
33	Travancor chochin	225	-	-	-	-	-	-	-	-	-	-	-

Annexure-2.03 (Ref. Para 2.7.20)

Interstate share in the net proceeds of Income tax as recommended by the Finance Commission (in %ages)

S.No	States	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
1.	Andhra Pradesh	4.50	8.12	7.71	7.37	8.01	7.76	8.021	8.187	8.208	8.465
2	Arunachal Prad.	-	-	-	-	-	-	-	-	0.073	0.170
3	Assam	2.25	2.44	2.44	2.44	2.67	2.54	2.521	2.789	2.631	2.784
4	Bihar	9.75	9.94	9.33	9.04	9.99	9.61	9.536	12.080	12.418	12.861
5	Chhattisgarh	-	-	-	-	-	-	-	-	-	-
6	Goa	-	-	-	-	-	-	-	-	0.110	0.180
7	Gujarat	-	-	4.78	5.29	7.13	5.55	5.957	4.409	4.550	4.046
8	Haryana	-	-	-	-	1.73	1.77	1.819	1.074	1.244	1.238
9	Himachal Pradesh	-	-	-	-	-	0.60	0.595	0.555	0.595	0.704
10	Jammu & Kashmir	-	1.13	0.70	0.73	0.79	0.81	0.818	0.838	0.695	1.097
11	Jharkhand	-	-	-	-	-	-	-	-	-	-
12	Karnataka	-	-	-	-	-	5.33	5.440	4.979	4.928	5.339

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13	Kerala	-	3.64	3.55	3.59	-	3.92	3.948	3.760	3.729	3.875
14	Madhya Pradesh	5.25	6.72	6.41	6.47	7.09	7.30	7.354	8.378	8.185	8.290
15	Maharashtra/Mumbai	17.50	15.97	13.41	14.28	11.34	11.05	10.949	8.392	8.191	6.126
16	Manipur	-	-	-	-	-	0.18	0.188	0.220	0.171	0.282
17	Meghalaya	-	-	-	-	-	-	-	-	0.208	0.283
18	Mizoram	-	-	-	-	-	-	-	-	0.073	0.149
19	Nagaland	-	-	-	0.07	0.08	0.09	0.085	0.088	0.096	0.181
20	Orissa	3.50	8.73	3.44	3.40	3.75	3.73	0.738	4.202	4.326	4.495
21	Punjab	3.25	4.74	4.49	4.36	2.55	2.75	2.713	1.744	1.706	1.461
22	Rajasthan	3.50	4.09	3.97	3.97	4.34	4.50	4.362	4.545	4.836	5.551
23	Sikkim	-	-	-	-	-	-	0.035	0.035	0.030	0.126
24	Tamil Nadu	15.25	8.40	8.13	8.34	8.18	7.94	8.048	7.565	7.931	6.637
25	Tripura	-	-	-	-	-	0.27	0.258	0.269	0.303	0.387
26	Uttar Pradesh	15.75	16.36	14.42	14.60	16.10	15.23	15.422	17.907	16.787	17.811
27	Uttaranchal	-	-	-	-	-	-	-	-	-	-
28	West Bengal	11.25	10.08	12.09	10.91	9.11	8.89	8.015	7.800	7.976	7.471
29	Mysore	2.25	8.14	5.13	5.14	5.40	-	-	-	-	-
30	Madhya Bharat	1.75	-	-	-	-	-	-	-	-	-
31	Patila & East Punjab	0.75	-	-	-	-	-	-	-	-	-
32	Sourashtra	1.00	-	-	-	-	-	-	-	-	-
33	Travancor chochin	2.50	-	-	-	-	-	-	-	-	-

Notes:-

2nd FC: Reserved 61% of the net proceeds for the union and union territories, distributing remaining 39% among the states.

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3rd FC: Reserved 66& 2/3rd % and 2.5% of net proceeds for union and union territories, distributing remaining amount among the states.

4th FC: Reserved 75 & 2.5% of net proceeds for union and union territories, distributing remaining amount among the states

5th FC: Reserved 75 & 2.5% of net proceeds for union and union territories, distributing remaining amount among the states

9th FC: 85% of the divisible pool distributed among the states.

10th FC: 77.5% of the divisible pool assigned to the states.

Annexure-2.04

(Ref. Para 2.7.20)

Interstate share of divisible union excise duty under as articles 272 as recommended by the Finance Commission (%ages)

S. No	States	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
1	Andhra Pradesh	5.39	9.38	8.23	7.77	7.15	8.16	7.691	8.587	7.170	8.465
2	Arunachal Pradesh	-	-	-	-	-	-	-	-	0.897	0.170
3	Assam	2.61	3.46	4.73	3.32	2.51	2.71	2.793	2.977	3.810	2.784
4	Bihar	11.60	10.57	11.56	10.03	13.81	11.47	13.021	13.202	11.028	12.861
5	Chhattisgarh	-	-	-	-	-	-	-	-	-	-
6	Goa	-	-	-	-	-	-	-	-	0.523	0.180
7	Gujarat	-	-	6.45	4.80	4.17	4.57	4.101	3.506	3.183	4.064
8	Haryana	-	-	-	-	1.49	1.53	1.177	1.017	1.099	1.238
9	Himachal Pradesh	-	-	-	-	-	0.63	0.521	0.589	1.943	0.704
10	Jammu & Kashmir	-	1.75	2.02	2.26	1.12	0.90	0.839	0.856	3.548	1.097
11	Jharkhand	-	-	-	-	-	-	-	-	-	-
12	Karnataka	-	-	-	-	-	5.45	4.876	5.077	4.104	5.339
13	Kerala	-	3.84	5.46	4.16	4.28	3.86	4.035	3.800	3.087	3.875

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14	Madhya Pradesh	6.13	7.46	8.46	7.40	8.48	8.15	8.725	8.852	7.224	8.290
15	Maharashtra	10.37	12.17	5.73	8.23	7.93	8.58	6.632	6.216	5.185	6.126
16	Manipur	-	-	-	-	-	0.21	0.218	0.233	1.174	0.282
17	Meghalaya	-	-	-	-	-	0.19	0.200	0.194	0.891	0.283
18	Mizoram	-	-	-	-	-	-	-	-	1.109	0.149
19	Nagaland	-	-	-	2.21	0.08	0.11	0.097	0.096	1.348	0.181
20	Orissa	4.22	4.46	7.07	4.82	4.72	4.06	4.682	4.592	5.358	4.495
21	Punjab	3.66	4.59	6.71	4.85	2.17	1.87	1.226	1.317	1.362	1.461
22	Rajasthan	4.41	4.71	5.93	5.06	5.28	5.00	4.813	4.695	5.524	5.551
23	Sikkim	-	-	-	-	-	-	0.028	0.039	0.260	0.126
24	Tamil Nadu	16.44	7.56	6.08	7.18	6.50	7.43	7.637	7.317	6.379	6.637
25	Tripura	-	-	-	-	-	0.30	0.313	0.292	1.556	0.378
26	Uttar Pradesh	18.23	15.94	10.68	14.98	18.82	17.03	10.290	19.097	15.638	17.811
27	Uttaranchal	-	-	-	-	-	-	-	-	-	-
28	West Bengal	7.16	7.59	5.07	7.51	6.86	7.79	8.025	7.449	6.600	7.471
29	Mysore	2.62	6.52	5.82	5.41	4.65	-	-	-	-	-
30	Madhya Bharat	2.29	-	-	-	-	-	-	-	-	-
31	Patialia & ESU	1.00	-	-	-	-	-	-	-	-	-
32	Sourashtra	1.19	-	-	-	-	-	-	-	-	-
33	Travancor chochin	2.68	-	-	-	-	-	-	-	-	-
14	Madhya Pradesh	6.13	7.46	8.46	7.40	8.48	8.15	8.725	8.852	7.224	8.290
15	Maharashtra	10.37	12.17	5.73	8.23	7.93	8.58	6.632	6.216	5.185	6.126
16	Manipur	-	-	-	-	-	0.21	0.218	0.233	1.174	0.282
17	Meghalaya	-	-	-	-	-	0.19	0.200	0.194	0.891	0.283
18	Mizoram	-	-	-	-	-	-	-	-	1.109	0.149
19	Nagaland	-	-	-	2.21	0.08	0.11	0.097	0.096	1.348	0.181
20	Orissa	4.22	4.46	7.07	4.82	4.72	4.06	4.682	4.592	5.358	4.495

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21	Punjab	3.66	4.59	6.71	4.85	2.17	1.87	1.226	1.317	1.362	1.461
22	Rajasthan	4.41	4.71	5.93	5.06	5.28	5.00	4.813	4.695	5.524	5.551
23	Sikkim	-	-	-	-	-	-	0.028	0.039	0.260	0.126
24	Tamil Nadu	16.44	7.56	6.08	7.18	6.50	7.43	7.637	7.317	6.379	6.637
25	Tripura	-	-	-	-	-	0.30	0.313	0.292	1.556	0.378
26	Uttar Pradesh	18.23	15.94	10.68	14.98	18.82	17.03	10.290	19.097	15.638	17.811
27	Uttaranchal	-	-	-	-	-	-	-	-	-	-
28	West Bengal	7.16	7.59	5.07	7.51	6.86	7.79	8.025	7.449	6.600	7.471
29	Mysore	2.62	6.52	5.82	5.41	4.65	-	-	-	-	-
30	Madhya Bharat	2.29	-	-	-	-	-	-	-	-	-
31	Patialia & ESU	1.00	-	-	-	-	-	-	-	-	-
32	Sourashtra	1.19	-	-	-	-	-	-	-	-	-
33	Travancor chochin	2.68	-	-	-	-	-	-	-	-	-

Notes:-

2nd FC Recommended distribution of 25% of the net proceeds of the tax among the states.

3rd FC: Recommended distribution of 20% of the net proceeds of the tax from 35 identified goods to be distributed among the states.

4th FC: Recommended distribution of 20% of the net proceeds of the tax from 35 identified goods to be distributed among the states

5th FC: During 1969-72 20% of the net proceeds excluding special excises, duties and cases levied for special purposes to be distributed. For the years 1972-74 20% including special excises but excluding regulatory duties & cases under special acts and earmarked for special purposes to be distributed.

9th FC: 45% of the net proceeds distributed among states. In the divisible pool special excise duties excluding additional duty of excise (textile & textile articles and earmarked lines) have been included.

10th FC: 40% of the net proceeds have been distributed among the states as indicated in the table.

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Additional 75% has also been recommended to be distributed for which %age's have been fixed for individual years as under:-

Annexure-2.05 (Ref. Para 2.7.20)

Interstate distribution of divisible Additional duties of Excise as recommended by the Finance Commission (in %ages)

S. No	States	1st	2n	3rd	4th	5th	6th	7th	8th	9th	10th
1.	Andhra Pradesh		235	235.24	235.24	235.24	8.39	5.245	7.504	7.680	7.820
2	Arunachal Pradesh		-	-	-	-	-	-	-	1.077	0.104
3	Assam		85	85.08	85.24	85.08	2.47	2.408	2.566	2.743	2.483
4	Bihar		130	130.16	130.15	130.16	9.36	5.933	8.627	8.317	7.944
5	Chhattisgarh	-	-	-	-	-	-	-	-	-	-
6	Goa		-	-	-	-	-	-	-	0.228	0.232
7	Gujarat		-	323.45	323.45	323.45	5.91	8.742	5.941	5.905	5.995
8	Haryana		-	-	-	65.49	1.94	2.656	2.488	2.317	2.366
9	Himachal Pradesh		-	-	-	-	0.59	0.860	0.663	0.621	0.595
10	Jammu & Kashmir		1.25% of NP	1.5% of NP	1.5% of NP	0.83% of NP	0.73	0.831	0.853	0.929	0.856
11	Jharkhand		-	-	-	-	-	-	-	-	-
12	Karnataka		-	-	-	-	5.62	4.901	5.561	5.865	5.744
13	Kerala		95	95.08	95.08	95.08	3.58	3.783	3.963	3.723	3.740
14	Madhya Pradesh		155	155.17	155.17	155.17	6.98	6.019	6.942	7.164	7.236
15	Maharashtra		960	637.77	637.77	637.77	11.65	17.082	11.461	11.886	12.027
16	Manipur		-	-	-	-	0.17	0.143	0.178	0.213	0.197
17	Meghalaya		-	-	-	-	0.17	0.029	0.183	0.190	1.188
18	Mizoram		-	-	-	-	-	-	-	0.068	0.079

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19	Nagaland		-	-	-	0.90% of NP	0.08	0.115	0.098	0.120	0.137
20	Orissa		85	85.10	85.10	85.10	3.59	2.178	3.653	3.486	0.345
21	Punjab		175	175.19	175.19	96.07	2.68	6.220	3.675	3.533	3.422
22	Rajasthan		90	90.10	90.10	90.10	4.17	4.729	4.827	4.689	4.873
23	Sikkim		-	-	-	-	-	0.057	0.039	0.052	0.053
24	Tamil Nadu		285	287.34	285.34	285.34	7.27	6.449	7.549	7.064	7.669
25	Tripura		-	-	-	-	0.25	0.172	0.287	0.278	0.286
26	Uttar Pradesh		575	575.81	575.81	575.81	16.10	13.184	14.318	14.657	14.573
27	Uttaranchal		-	-	-	-	-	-	-	-	-
28	West Bengal		280	280.41	280.41	280.41	8.30	8.254	8.624	8.165	8.036
29	Mysore		100	100.10	100.10	100.10	-	-	-	-	-

Notes:-

2nd FC: 1% reserved for UTS, 1.25% for J&K and the remaining of the net proceeds distributed among states as indicated in the table.

3rd FC: 1% reserved for UTS, 1.50% for J&K and the remaining of the net proceeds distributed among states on the basis of their income during 1956-57 on a/c of sales tax by whatever name called on six identified commodities.

4th FC: 1% reserved for UTS, 1.50% for J&K and 0.05% for Nagaland and the remaining of the net proceeds distributed among states on the basis of their income during 1956-57 on a/c of sales tax by whatever name called on six identified commodities.

5th FC: Reserved 2.05% for Uts, 0.83% for J&K and 0.90% for Nagaland the remaining of the net proceeds distributed among states on the basis of their income during 1956-57 on a/c of sales tax by whatever name called on six identified commodities.

9thFC: 1.903% retained for Uts and the balance distributed among states.

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10th FC: 2.203% has been retained for centre and the balance distributed among states.

Annexure-2.06

(Ref. Para 2.7.20)

Interstate distribution of divisible Pool of taxes as recommended by the Finance Commission (in %ages)

S.No	States	11th		12th	
		Without exp./ service tax	Exp. / Service tax	Without Ser. Tax	With Service Tax
1.	Andhra Pradesh	7.701	7.802	7.356	7.453
2	Arunachal Pradesh	0.244	0.247	0.288	0.292
3	Assam	3.285	3.328	3.235	3.277
4	Bihar	14.597	14.788	11.028	11.173
5	Chhattisgarh	-	-	2.654	2.689
6	Goa	0.206	0.209	0.259	0.262
7	Gujarat	2.821	2.858	3.569	3.616
8	Haryana	0.944	0.956	1.075	1.089
9	Himachal Pradesh	0.683	0.692	0.522	0.529
10	Jammu & Kashmir	1.290	-	1.297	-
11	Jharkhand	-	-	3.361	3.405
12	Karnataka	4.930	4.994	4.459	4.518
13	Kerala	3.057	3.097	2.665	2.700
14	Madhya Pradesh	8.838	8.954	6.711	6.799
15	Maharashtra/Mumbai	4.632	4.693	4.997	5.063
16	Manipur	0.366	0.371	0.362	0.367
17	Meghalaya	0.342	0.346	0.371	0.376
18	Mizoram	0.198	0.201	0.239	0.242
19	Nagaland	0.220	0.223	0.263	0.266

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20	Orissa	5.056	5.122	5.161	5.229
21	Punjab	1.147	1.162	1.299	1.316
22	Rajasthan	5.473	5.544	5.609	5.683
23	Sikkim	0.184	0.186	0.227	0.230
24	Tamil Nadu/Chennai	5.385	5.455	5.305	5.374
25	Tripura	0.487	0.493	0.428	0.433
26	Uttar Pradesh	19.798	20.057	19.264	19.517
27	Uttaranchal	-	-	0.939	0.952
28	West Bengal	8.116	8.222	7.057	7.150
29	Mysore	-	-	-	-

Annexure-2.07 (Ref. Para 2.7.31)

State-wise Debt Relief after consolidation of Central Loans Contracted before 31.03.2004 and outstanding on 31.03.2005

(Rs. in crore)

S. No.	States	Total (Debit Servicing during 2005-10)		
		Repayment	Interest	Total
1	Andhra Pradesh	739.64	2683.74	3423.38
2	Arunachal Pradesh	19.98	71.73	91.71
3	Assam	507.62	153.87	661.49
4	Bihar	620.45	1268.27	1888.72
5	Chhattisgarh	146.03	393.77	539.80
6	Goa	39.06	94.66	133.72
7	Gujarat	849.15	1840.02	2689.17
8	Haryana	258.30	387.67	645.96
9	Himachal Pradesh	69.88	134.79	204.67
10	Jammu & Kashmir	161.38	264.02	425.40

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11	Jharkhand	204.94	454.49	659.43
12	Karnataka	431.32	1529.43	1960.74
13	Kerala	379.14	715.03	1094.17
14	Madhya Pradesh	616.66	1310.98	1927.64
15	Maharashtra	1133.12	1217.39	2350.51
16	Manipur	292.14	27.26	319.40
17	Meghalaya	14.82	56.49	71.30
18	Mizoram	7.31	50.54	57.85
19	Nagaland	21.35	56.06	77.41
20	Orissa	872.85	1008.43	1881.28
21	Punjab	351.48	523.18	874.66
22	Rajasthan	737.77	962.25	1700.02
23	Sikkim	10.69	33.96	44.65
24	Tamil Nadu	688.67	1195.47	1884.14
25	Tripura	24.77	123.97	148.73
26	Uttar Pradesh	1553.04	3132.68	4685.72
27	Uttaranchal*	-10.13	37.70	27.57
28	West Bengal	1187.48	1547.81	2735.29
	Total	**11928.91**	**21275.65**	**33204.56**

* The state is not getting benefit in repayments as some loans which would otherwise have got fully repaid during our award period are getting rescheduled for a fresh period of 20 years and existing repayment profile of Block Loans seems to involve a moratorium on half the repayment during 2005 to 2009.

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Annexure- 2.08 (Ref. Para 2.7.32)

Calculation of Incentive for Debt Relief Based on Fiscal Performance

(Rs. in crore)

	States	2001-02 (Act.)	2002-03 (Act.)	2003-04 (RE)	Average Revenue Surplus/ Deficit (2001-02 to 2003-04) (a)	Repayment due from 2005-10 after consolidation and resche-dulement (b	Annual repayment due {(b)/5)}	Ratio of Total repay-ment to Average deficit (01-02 to 03-04)
		Revenue Surplus (+)/ Deficit(-)						
	1	2	3	4	5	6	7	8
	General Category States							
1	Andhra Pradesh	-2881	-3054	-2904	-2947	3834.29	766.86	1.30
2	Bihar	-1320	-1287	-1107	-1238	1926.02	385.20	1.56
3	Chhattisgarh	-569	-113	-584	-422	570.31	114.06	1.35
4	Goa	-229	-167	-92	-162	132.13	26.43	0.81
5	Gujarat	-6732	-3565	-3462	-4586	2615.98	532.20	0.57
6	Haryana	-1055	-685	-904	-881	581.43	116.29	0.66
7	Jharkhand	-305	-573	142	-245	659.49	131.90	2.69
8	Karnataka	-3296	-2646	-1318	-2420	2079.54	415.91	0.86
9	Kerala	-2606	-4122	-3676	-3468	1063.05	212.61	0.31
10	Madhya Pradesh	-3158	-1169	-5204	-3177	1875.10	375.02	0.59
11	Maharashtra	-8189	-9371	-9037	-8865	1953.22	390.64	0.22
12	Orissa	-2833	-1576	-2963	-2457	1751.29	350.26	0.71
13	Punjab	-3781	-3754	-3539	-3692	763.42	152.68	0.21
14	Rajasthan	-3796	-3934	-3667	-3799	1708.38	341.68	0.45
15	Tamil Nadu	-2739	-4851	-3700	-3763	1718.17	343.63	0.46

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16	Uttar Pradesh	-6195	-5117	-19938	-10417	4585.12	917.02	0.44
17	West Bengal	-8856	-8635	-9376	-8956	2425.07	485.01	0.27
	Total –GC States	**-58539**	**-54619**	**-71329**	**-61496**	**30242.03**	**6048.41**	**-**
	Special Category States							
1	Arunachal Pradesh	56	77	-39	31	97.39	19.48	-
2	Assam	-881	-319	-1634	-945	524.95	104.99	0.56
3	Himachal Pradesh	-860	-1482	-1508	-1284	206.06	41.21	0.16
4	Jammu & Kashmir	-336	369	1910	647	473.84	94.77	-
5	Manipur	-161	-87	-280	-176	188.54	37.71	1.07
6	Meghalaya	-34	84	110	54	80.27	16.05	-
7	Mizoram	-260	-109	-32	-134	67.85	13.57	0.51
8	Nagaland	-103	-159	99	-54	80.15	16.03	1.47
9	Sikkim	143	198	163	168	48.07	9.61	-
10	Tripura	54	-81	93	22	117.53	23.51	-
11	Uttaranchal	-205	-458	-1463	-709	72.02	14.40	0.10
	Total Spl. Cat. States	**-2588**	**-1969**	**-2582**	**-2379**	**1956.66**	**391.33**	**-**
	Total All States	**-61127**	**-56588**	**-73911**	**-63875**	**32198.69**	**6439.74**	**-**

Note : * This represents the amount by which repayments will be written off for every Rupee reduction in revenue deficit.

Annexure-2.09

(Ref. Para 2.7.32)

Cumulative Relief on Interest Payments after consolidation, Reschedulement and Lowering of Interest Rate to 7.5 per cent on Central Loans Contracted before 31.03.2004 and outstanding on 31.03.2005

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(Rs. in crores)

S. No	States	2005-06 Interest Relief	2006-07 Interest Relief	2007-08 Interest Relief	2008-09 Interest Relief	2009-10 Interest Relief	Cumulative interest Relief upto 2009-10
	1	2	3	4	5	6	7
1	Andhra Pradesh	611.66	582.74	548.11	499.42	441.81	2683.74
2	Arunachal Pradesh	16.40	15.63	14.65	13.32	11.73	71.73
3	Assam	68.75	48.64	28.05	6.49	1.94	153.87
4	Bihar	303.45	281.58	257.94	229.24	196.05	1268.27
5	Chhattisgarh	91.38	86.18	80.11	72.59	63.50	393.77
6	Goa	22.26	21.01	19.32	17.20	14.85	94.66
7	Gujarat	427.83	407.03	380.98	347.05	277.13	1840.02
8	Haryana	95.72	87.96	78.71	68.37	56.90	387.67
9	Himachal Pradesh	32.46	30.11	27.36	24.23	20.64	134.79
10	Jammu & Kashmir	64.00	59.12	53.60	47.27	40.02	264.02
11	Jharkhand	103.09	118.27	87.75	78.19	67.19	454.49
12	Karnataka	348.77	332.91	312.84	284.43	250.48	1529.43
13	Kerala	170.47	158.90	145.43	129.81	110.42	715.03

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14	Madhya Pradesh	297.45	284.53	268.42	243.64	216.94	1310.98
15	Maharashtra	319.63	284.34	246.34	205.55	161.54	1217.39
16	Manipur	29.90	16.46	2.86	-11.01	-10.94	27.26
17	Meghalaya	12.84	12.25	11.49	10.55	9.37	56.49
18	Mizoram	11.22	10.83	10.29	9.56	8.64	50.54
19	Nagaland	13.12	12.35	11.41	10.26	8.93	56.06
20	Orissa	277.36	240.71	200.20	155.94	134.21	1008.43
21	Punjab	129.98	118.40	105.38	90.48	78.94	523.18
22	Rajasthan	253.98	223.94	190.97	155.39	137.97	962.25
23	Sikkim	7.82	7.42	6.91	6.27	5.54	33.96
24	Tamil Nadu	292.30	269.44	241.98	211.20	180.56	1195.47
25	Tripura	30.93	28.16	25.08	21.66	18.15	123.97
26	Uttar Pradesh	743.28	695.26	634.65	564.15	495.35	3132.68
27	Uttranchal	7.21	7.40	7.53	7.69	7.87	37.70
28	West Bengal	398.77	356.52	309.18	256.74	226.60	1547.81
	TOTAL	**5182.04**	**4798.09**	**4307.52**	**3755.70**	**3232.30**	**21275.65**

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Annexure 2.10

(Ref. Para 2.7.37)

General recommendations of the finance commissions for improving financial health of the states.

1 For an enduring solution to the problems of budget deficits attention needs to be paid to the system of budgeting and budgetary controls.

2 Introduction of multi year budgeting process.

3 The revenue deficit relative of GDP for the centre and the states, for their combined as well as individual accounts should be brought down to zero by 2008-09.

4 States should follow a recruitment and wage policy, in a manner so that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 percent.

5 Maintenance of assets to be adequately provided for in the budget and strictly monitored.

6 The system of imposing a 70:30 ratio between loans and grants for extending plan assistance to non-special category states (10:90 in the case of special category states) should be done away with. Instead, the center should confine itself to extending plan grants to the states, and leave it to them to decide how much they wish to borrow and from whom.

7 Services are emerging as a fast growing sector of economy constituting 50% of the GDP should be brought increasingly under tax net.

8 Each state should enact a fiscal responsibility legislation, which should , at a minimum, provide for:

a) eliminating revenue deficit by 2008-09;

b) reducing fiscal deficit to 3 percent of GSDP or its equivalent, defined as the ratio of interest payment to revenue receipts;

c) bringing out annual reduction in the targets of fiscal deficits;

d) bringing out annual statement giving prospects for the state economy and related fiscal strategy; and

e) bringing out special statements along with the budget giving in detail the number of employees in government, public sector, and aided institutions and related salaries.

9 The panchayati raj institutions (PRIs) should be encouraged to take over the assets relating to water supply and sanitation and utilize the grants for repairs/rejuvenation as

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also the O&M costs. The PRIs should, however, recover at least 50 percent of the recurring costs in the form of user charges.

10 Out of the grants allocated for the panchayats, priority should be given to expenditure on the O&M costs of water supply and sanitation. This will facilitate panchayats to take over the schemes and operate them.

11 At least 50 percent of the grants provided to each state for the urban local bodies should be earmarked for the scheme of solid waste management through public-private partnership. The municipalities should concentrate on collection, segregation and transportation of solid wastes. The cost of these activities, whether carried out in house or out sourced, should be met from the grants.

12 Besides expenditure on the O&M costs of water supply and sanitation in rural areas and on the schemes of solid waste management in urban areas, PRIs and ULBs should, out of the grants allocated, give high priority to expenditure on creation of data base and maintenance of accounts through the use of modern technology and management systems, wherever possible. Some of the modern methods like GIS (Geographic Information Systems) for mapping of properties in urban areas and computerization for switching over to a modern system of financial management would go a long way in creating strong local governments, fulfilling the spirit of the 73rd and 74th Constitutional amendments.

13 The states may assess the requirement of each local body on the basis of the stated principles and earmark funds accordingly out of the total allocation recommended by the finance commission.

14 Grants have not been recommended separately for the normal and the excluded areas under the fifth and sixth schedule of the Constitution. The states having such areas may distribute the grants recommended by the finance commission to all local bodies, including those in the excluded areas, in a fair and just manner.

15 The central government should not impose any condition other than those prescribed by the finance commission, for release or utilization of the grants provided for PRIs, which are largely in the nature of a correction of vertical imbalance between the centre and the states.

16 The normal practice of insisting on the utilization of amounts already released before further releases are considered, may continue and the grants may be released to a state only

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after it certifies that the previous releases have been passed on the local bodies. The amounts due to the states in the first year of an award period should be released without such an insistence.

17 State governments should not take more than 15 days in transferring the grants to local bodies after these are released by the central government. The centre should take a serious view of any undue delay on the part of the state.

18 The state should adopt the best practices to improve the resources of the panchayats.

19 State finance commission (SFC) should be set up, akin to the provision of Art. 280 of the Indian constitution. The suggestions made in respect of state finance commissions should be acted upon with a view to strengthening these institutions to play an effective role in the system of fiscal transfers to the third tier of government.

20 Transfers to local bodies to be distinctly projected in the budget.

21 Tax base of states and local bodies needs to be widened.

22 Ceiling on professional tax be revised.

23 Taxes on land/farm income may be levied to strengthen the resource base of local bodies.

24 Property tax and house tax needs to be exploited to the full.

25 Requirement of states for plan revenue expenditure should be assessed on the basic needs and not according to Gadgil formula, which in itself needs a fresh look.

26 Suitable schemes to be evolved for re-deployment of excess person power in Govt. and PSUS.

27 Revenue gaps of special category states be met out of the finance commission grants. Development of infrastructure of vital importance in these states should be responsibility of the centre.

28 Sanctioning and determination of unit cost in respect of upgradation schemes should vest with the states.

29 Effective steps are needed for recovery of arrears, which are growing very fast.

30 User charges should be index-linked. Autonomous tariff commissions need to be appointed.

31 Royalties on minerals should be kept under regular review.

32 Forest management needs improvements.

33 Composition of government expenditure needs re-structuring.

34 Pay commission be appointed as a routine after every 10 years.

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35 Security related expenditure of J&K prior to 1991 be assessed and debt relief to that extent given to the state.
36 Limits for giving of guarantees by the states be fixed.
37 Sinking fund for amortization of debt be set up.

Annexure-2.11

(Ref. Para 2.8.15)

Format for working out financial resources for the plan

	Particulars	Years/Amount
1.0.0	**Balance from current revenue (BCR) at base level rates:**	
1.1.0	Revenue Receipts	
1.1.1	Share of central taxes	
1.1.2	State tax revenue	
1.1.3	Non-tax revenue	
1.1.4	Grants from centre (non-plan)	
	01 Revenue Gap grant	
	02 nts fro Natural calamities	
	03 nts in lieu of Tax on Railway fare	
	04 Agriculture wealth tax	
	05 Others	
1.1.5	Total 1.1.4	
1.1.6	Total 1.1.0	
1.2.0	Revenue expenditure (Non-Plan)	
1.2.1	Non-Plan non developmental	
	01 Debt services	
	02 Interest payment	
	03 Appropriation for reduction or avoidance of debt	
	04 Others	
1.2.2	Total 1.2.1	
1.2.3	Non-Plan developmental	
1.2.4	Transfer to Funds	
1.2.5	Provisions	
1.2.6	Total 1.2.0	
1.3.0	Balance from current revenue (BCR) without Additional Resources Mobilization (ARM) (1.1.0 – 1.2.0)	
2.0.0	**Grants from Finance Commission**	
2.1.0	Grants for special problems	
2.2.0	Grants for local problems	
2.3.0	Grants for up-gradations	
2.4.0	Total 2.0.0	
3.0.0	**Contribution of Public Enterprises**	
3.1.0	State Electricity board	
3.2.0	State Road Transport Corporation	

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3.3.0 Others
3.4.0 Total 3.0.0.
4.0.0 Open market borrowings (SLR based) (net)
5.0.0 Share of small savings (net)
6.0.0 State Provident Funds (net)
7.0.0 Miscellaneous capital receipts (net)
8.0.0 Bonds/Debentures (Non-SLR based) (net)
9.0.0 Negotiated Loans (net)
9.1.0 LIC by state government
9.2.0 GIC by state government
9.3.0 Nabard by state government
9.4.0 REC by state government
9.5.0 IDBI by state government
9.6.0 Others by state government
9.7.0 Total 9.0.0
10.0.0 Total state resources at base level rates
11.0.0 Withdrawal from resources etc
11.1.0 Withdrawal from cash balance
11.2.0 Increase in over drafts
11.3.0 Withdrawal from NCRF
11.4.0 Withdrawal from other reserves, deposits and funds
11.5.0 Total 10.0.0
12.0.0 Surplus of local bodies for their plan (net)
13.0.0 Central assistance for plan
13.1.0 Normal (formula based)
13.2.0 For externally aided projects (EAP)
13.3.0 Others (To be specified)
13.4.0 Total 13.0.0
14.0.0 Aggregate resources (10.0.0+11.0.0+12.0.0+13.0.0)
15.0.0 State Plan outlay proposed
16.0.0 Excess of resources over proposed S.P. outlay(+) surplus (-) deficit.

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Chapter 3

CLASSIFICATION IN GOVERNMENT ACCOUNTS

3.1.0. Historical background

3.1.1. No executive can foresee its financial requirements accurately and no controls can be exercised unless activities/functions are listed and grouped properly. "Such a frame work which provides a structural key for assessment of financial requirements, monitoring and analysis of programmes and activities as well as control by objects of expenditure and to the extent possible an assessment of the return for expenditure incurred can be termed as classification". A system of classification should, therefore, be a well-conceived plan. This is particularly true about classification in government accounts because of varied nature of activities undertaken by it, which are widespread through a network of its field formations and also substantial in their magnitude.

3.1.2. The present system of classification followed in India has its own history. It was for the first time, in the year 1860-61 that procedure was prescribed for an annual budget of imperial income and expenditure of the country to be sanctioned by the supreme government of India so that a proper control over assessment and actualization of the financial transactions could be exercised by them. Subsequently, it was found that system of budgeting through one central budget is difficult. The system of classification then followed for centralized budgeting was therefore, redefined in 1919 when provincial governments were given greater autonomy in financial matters.

3.1.3 Separate heads for functions allotted to the central and provincial governments were prescribed at that time. Central functions such as defence, posts and telegraphs, political charges, commerce and audit were accounted for under distinct heads of classification. Similarly, expenditure in respect of functions attributed to provincial governments such as, land revenue, forests, stamps, police, justice, medical, etc. were booked under the heads of account operated in the account books of these governments. All the balances in the treasuries and banks were, however, treated as single cash balance of the central government. The cash balances were for the first time separated during 1935 with the passing of Government of India Act, 1935, which apart from giving provincial autonomy also envisaged a federal setup for the country.

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3.1.4. After independence when constitution came into force, the accounts started to be maintained in three distinct parts namely, consolidated fund, contingency fund and public account as provided for in Article 267. Although accounts were started to be grouped into these three parts from 1950-51, the structures of classification within these divisions continued to be the same as introduced in 1935.

3.1.5 So long as government confined themselves to the traditional functions of maintenance of law and order within their territories and security against external threats, the system served its purpose. After independence, the position changed. The government assumed greater responsibility. Economic upliftment of the people became the first concern of government. In order to achieve this objective and fulfil the obligations entrusted on them by the constitution, the executive embarked upon preparation and implementation of developmental plans. The government in power has also an obligation to fulfill the promises and assurances given by them and on the basis of which they have been voted to power. The resources are scarce and the demands enormous. The whole process, therefore, involves determination of priorities and allocation of resources. It is equally necessary to see as to how developmental plans are implemented and what are the results of the investments made in different sectors for the economy. To move in this direction some changes were brought about in the system of classification in the years 1961-62 and 1962-63, which however, turned out to be helpful for securing more accountability than any other objective. It was found that pattern of classification needs modification to make it more meaningful, meeting all the requirements mentioned above. The government of India, therefore, constituted in March, 1969, a team of officers to consider certain matters relating to accounts and the budget pursuant to the recommendations of the administrative reforms commission (ARC) made by them in their report on 'Finance, Accounts and Audit'. This committee of officers made available its report in 1972, was accepted and a new system of classification in government accounts introduced from commencement of the financial year 1974-75 which is oriented towards functions, programmes and activities rather than the departments where these activities originate.

3.1.6. Apart from giving functional orientation to the pattern of classification this committee of officers also developed a co-relation between plan schemes and accounts heads. After implementation of the recommendations of the committee from Ist April, 1974 it was

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however, found that co-relation between non-plan and plan heads of account has not emerged satisfactorily. Instead divergence between the two aspects of accounting classification has increased. A need was accordingly felt to bring about a closer co-ordination between plan schemes and the account heads. Accordingly government of India constituted another team of officers to redefine the system of co-relation of plan with non-plan programmes inbuilt in the scheme of classification followed from 1974-75 and rationalize account heads wherever required. The recommendations of this committee have been given effect from Ist April 1987.

3.2.0. Constitutional provisions having bearing on classification in Government accounts

3.2.1. Art. 150 of the constitution provides that "the accounts of the Union and of the States shall be kept in such form as the President may on the advise of the Comptroller and Auditor General of India, prescribe".

3.2.2. The basic requirement about any system of classification that may be followed in India is, therefore that it should be covered by the authority of the president who shall, accord such an authority on the proposals worked out in this behalf by the comptroller and auditor-general of India. This provision in the constitution, which centralized fixing of the pattern of accounting classification, enables to ensure that a similar system of classification is followed throughout the country. Therefore, the general system of classification is the same in different states and for the union government. In the diversity of conditions prevailing in our country, uniformity in preparation of budget and compilation of accounts is essential. It helps in a comparative study for analyzing socio-economic trends in different regions and states and facilitates working of finance commission, planning commission and others connected with fiscal management of the country. National averages can be drawn under different socio-economic and administrative fields according to acclaimed parameters for inter-state comparisons to facilitate application of correctives wherever and whenever required.

3.2.3. The general frame in which accounts have to be maintained has also been laid down in the constitution. The three divisions of the accounts, namely consolidated fund, contingency fund and public account have been described in detail. Every type of transaction has to be accounted for in these divisions according to its nature.

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Deviation from the procedure thus set, is not permissible except with the amendment in the constitution.

3.2.4. Art 226 (I) prescribes scope of the consolidated fund in the following terms:- "All revenues received by the Government of India, all loans raised by the Government by issue of treasury bills, loans or ways and means advances and all moneys received by the Government in repayment of loans shall form one consolidated fund to be entitled "consolidated fund of India" and all revenues received by the government of the states, all loans raised by the Government by issue of treasury bill, loans or ways and means advances and all money received by that government in repayment of loans shall form a consolidated fund to be entitled "Consolidated Fund of the State."

Therefore, there are separate consolidated funds for the union government and for each of the state governments. Both have to be maintained separately although nature of the transactions accounted for in this fund is the same. This arrangement helps in ascertaining status of this fund in respect of every individual state, union government and thus for the country in aggregate.

3.2.5. In the consolidate fund we are required to classify transactions relating to all the revenues raised by the government by way of imposition of taxes, collection of revenues attributable to various governmental functioning and loans raised from time to time in different forms. Moneys received in repayment of loans and advances made by the government have also to be credited to the same fund. A distinction has been made between loans raised by the government and the amounts received in repayment of loans and advances made by them. This being so, there are three distinct categories into which receipts of the government have to be categorized, namely: -

- **revenues receipts** comprising revenues raised/received as a result of imposition of taxes, by normal functioning of the administrative machinery and by way of statutory and other transfer of resources from centre to the states (excluding loans received from the central government).
- **public debt receipts,** accounting for moneys raised as loans of different kinds and in different forms including loans received form the central government under any arrangement; and
- **loans and advances receipts** representing recovery of loans and advances by the government for various social &

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economic purposes including loans and advances given to government employees.

3.2.6. The government may from time to time authorize withdrawal of money form the said fund to meet its requirements in accordance with the law and authority of the legislature. This is done through the mechanism of "annual financial statement". While presenting their demand of funds to the legislature in the prescribed manner, the government is required to maintain distinction between revenue and capital expenditures. Art 112 (meant for union government) and Art. 202 (relevant to the states) of the constitution which deal with this subject, among other things, prescribe ".....and shall distinguish expenditure on revenue account from other expenditure"

3.2.7. 'Revenue expenditure is one which has to be incurred for meeting normal government commitments like running of administration, maintenance of law and order, as also the expenditure, which does not result in creation of assets and is in the form of maintenance of level of development already reached. On the other hand, the term other expenditure used in this article of the constitution is in the form of creation of assets or reduction in debts or any other future liability. Obviously, therefore there have to be two subdivisions in the consolidated fund for recording transactions relating to expenditure, viz :-

- **expenditure within the revenue account**
- **capital expenditure outside revenue account**

3.2.8. It has already been mentioned that on the receipt side of the consolidated fund the transaction relating to loans raised by the government and recovery of loans advanced by it have to be classified distinctively. That being so, it will be right to give similar treatment to the expenditure side of these transaction as well, otherwise it will be difficult to co-relate advancing of loans and making of recovery there against as also between raising of loans from various sources. Thus, apart from two sub-divisions mentioned above, there are two more sub-divisions on the expenditure side of this fund, namely;

- **public debt disbursements**
- **loans and advances disbursements**

3.2.9. To sum up, the Consolidated Fund has the following sub-divisions.

consolidated fund receipts

- Revenue receipts
- Public Debt receipts

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- Loans and advances recoveries

consolidated fund disbursements

- Expenditure within revenue account
- Capital expenditure outside revenue account
- Public debt repayments
- Loans and advances

3.2.10. Art. 226(2) lays down that all other moneys received by or on behalf of the government of India or the government of a state shall be credited to public account of the union government or the state government as the case may be. This is further elucidated by Art. 284 of the constitution which reads as under:-

"All moneys received by or deposited with;

(a) any officer employed in connection with affairs of the Union or of a State, in his capacity as such, other than revenue and public moneys raised or received by Government of India or the Government of the State as the case may be, or

(b) Any Court within the territory of India to the credit of any cause, matter, account or person shall be paid into public account of India or the public account of the state as the case may be."

3.2.11. Obviously, therefore we have to classify the transactions other than those, which fall in the consolidated fund in a separate division, captioned public account. Let us now analyse what can be nature of the transactions, which have not to be taken as revenue receipts, loans raised or recovered. Similarly, we have also to find out what can be the expenditures, which cannot be taken as revenue expenditure, capital expenditure outside revenue account, repayment of loans raised or disbursement of loans and advances. The transactions thus, identified have to be taken to the public account. The following types of receipts and disbursements have been recognized to be classified or accounted for in the public account:-

- **Those in respect of which government has to act as a banker** – The moneys received by the government in this capacity are in the form of provident funds and small savings. These are in the form of saving deposits held by the government for and on behalf of employees and the public in accordance with the rules and regulations, which are framed to govern these deposits.
- **Those in respect of which the government has to act as a trustee** i.e., holding the moneys held for some time on

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behalf of certain bodies, organizations or individuals and have to be returned as per specified terms and conditions. These accounts are kept as reserve funds, depreciation fund, development fund etc. and all other deposit accounts like civil deposits, public works deposits, forest deposits, deposits of local bodies etc.

- **Those, which are in the nature of adjusting accounts** such as remittances, inter governmental adjusting accounts, suspense accounts and the like.

3.2.12 Accordingly, the public account has following sub-divisions, which have both receipts and disbursement sides: -

- Small savings, provident funds etc.
- Reserve funds
- Deposits and advances
- Suspense and miscellaneous
- Remittances
- Cash balance

3.2.13 The third division of accounts classification has been created by art. 267 of the constitution. This division is called contingency fund. This art reads as under: -

"(i) Parliament may be law establish a Contingency Fund in the nature of an imprest to be called "Contingency Fund of India" into which shall be paid from time to time such sums as may be determined by such law, and the said fund shall be placed at the disposal of the President to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorization of such expenditure by Parliament by Law under article 115 or article 116.

(ii) The Legislature of a State may by law establish a Contingency Fund in the nature of an imprest to be entitled "Contingency Fund of the State" into which shall be paid from time to time such sums as may be determined by such law, and the said Fund shall be placed at the disposal of the Governor of the State to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorization of such expenditure by the Legislature of the State by Law under article 205 and article 206."

3.2.14 The Contingency Fund is therefore, an imprest kept at the disposal of head of the union and the states. Out of this fund advances are

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given to the executives for meeting such expenditures which have not been provided for in the budget and appropriations authorized based thereon and are thus of unforeseen nature. Funds once drawn form these funds are recouped, and the availability of funds therein is brought to the authorized levels. At the time of recoupments the amounts, become part of the supplementary budget and it is through this mechanism that these are brought to the notice of legislature for their approval. The essence of maintenance of this fund is to enable the executive to meet such type of expenditure, need for which arises because of various unforeseen considerations like, occurrence of natural calamities, satisfying of legal decrees etc and do not therefore, form part of the budget passed by the legislature. In this way requirement of the constitution that the executive can incur expenditure from and out of consolidated fund either of India or of any state only with the authorizations made by the parliament/state legislature is met.

3.2.15 It is thus clear, that whatever be the structure of classification, it has to be within the general framework as prescribed in the constitution. Even within this structural fame, micro plans of classification in government accounts have not been left to absolute authority of executive. These have to be adopted with the approval of the president who accords such an approval on the advice of the comptroller and auditor general of India.

3.3.0. Classification within the three divisions mentioned in the Constitution

3.3.1. It will not be sufficient to record financial transactions of the government within the three divisions i.e, consolidated fund, contingency fund and the public account as envisaged in the constitution for, it will not meet the requirements of running of administration, planning, implementation and monitoring of developmental and other activities. The classification has to be much more broad based and transactions relating to the functions, programmes and activities have to be brought out clearly in every such system.

3.3.2. Before we proceed further it is necessary to understand, the meaning of the terms "function", "programme" and "activity" as is assigned to these terms in the classification of accounts.

- **Function:-** Represents a major division of the efforts of the government in any field of its activity. The term does not, however, refer to the policy objectives such as removal of

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poverty or reduction in regional disparity but to the distinct type of services such a defence, education, agriculture etc designed to secured policy objective of the government.

- **Programme:-** is a definite type of plan, which is formulated for achieving the objective of a function such as primary education under the function education and prevention of food adulteration under public health.
- **Activity:-** identifies a scheme undertaken in pursuance to the programme framed for implementation of a function like 'primary schools (boys)' under 'Primary education' and 'testing labs' under 'Prevention of food adulteration'.

3.3.3. We have seen that programmes and activities are subdivisions of a function, which are framed to secure its smooth implementation and control. In other words sum total of the expenditure transactions classified under different activities will indicate expenditure under a programme and a similar aggregation of expenditure under various programme of a function will be the total expenditure under that function.

3.3.4. It is not also sufficient to book transactions under various functions, programmes and activities. In order to have a proper understanding of government accounts we should be able to identify the functions and group, under different sections and sub-sections. The functions of allied nature are brought under relevant section/ sub-section, which are known as sectors of classification namely: -

- General services
- Social and community services
- Economic services
- Grants-in-Aid contributions

3.3.5. All the functions of the government are fitted into these sectors according to their nature as under: -

- **General services:** groups functions which are essential for running of administration like the president, parliament, judiciary, general administration, maintenance of law and order etc. etc.
- **Social services:** include such of the functions which provide social and community services like education, medical, public health etc.
- **Economic services:** include efforts made to improve economy and increase in the production capacity besides creation of economic infrastructures such as, development of agriculture, industry, mining etc.

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Grants-in-Aid & contributions: includes grants given by the central government to the states for various purposes and assignments to the local bodies and panchayti raj institutions.

3.3.6. Technically a function is known as **major head of account**. The programme and activity are referred to as **minor and sub-minor heads of account respectively**. In order to give better presentation to the developmental programmes (Plan schemes) sub-sectors and sub major heads of account have also been prescribed, wherever required.

3.3.7. An activity or a sub-minor head of account is further divided into **objects of expenditure,** also known as **detailed heads of account**. This is the last tier of classification. The object of expenditure or a detailed head of account helps in having an itemized control of expenditure on various inputs of an activity and are in the shape of salaries, wages, materials and supplies, maintenance etc.

3.3.8. To sum up, the general outlook of classification in government accounts emerges as under :-

- **Sector:** Represents a major division of functions of the government viz, general services, social services, economic services and grants-in-aid contributions.
- **Sub- Sectors:** Represents a group of allied functions within a sector like health and family welfare under social services.
- **Major head:** Represents a distinct function under a sector/ sub-sector like 'administration of justices' under general services – organs of state, or 'medical' and 'public health under 'social services'.
- **Sub-major head:** Represents a group of allied functions like 'urban health services' under 'social services - Health and Family Welfare.
- **Minor head:** Represents a programme undertaken to meet objectives of a function like 'hospitals and dispensaries' under 'social services - health and family welfare - urban health services'.
- **Sub minor head:** Represents a definite activity under a programme like 'SMHS Hospital' under "social services - health & family welfare - hospital and dispensaries."
- **Object expenditure:** Represents basic expenditure input of a programme like 'salaries' under social services - health

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and family welfare - hospitals and dispensaries - SHMS hospital.

3.3.9. it will be seen from the above that expenditure on salaries in SHMS hospital will get reflected in government account as: -
"Consolidated Fund - Social services - Health & Family Welfare - Hospitals and dispensaries - SHMS Hospital - Salaries."

3.3.10 It is now clear that the financial transactions in the government account have to be classified according to the function(s) to which these relate. Thus, the system is oriented towards functions, programmes and activities. The departments where these originate are not relevant for this purpose. The expenditure on construction of a school building though originating in the public works department has to be classified as expenditure on the function "education" and not on "public works". Similarly, 'takavi loans' disbursed by the revenue agencies has not to be classified as expenditure on district administration but as agriculture expenditure to which the expenditure relates. Investments in public sector and other non-governmental industrial undertakings has also to be classified under the relevant functional major heads of account irrespective of the department incurring the expenditure in connection with such investments. Similarly, loans and advances given by the government for various purposes may originate in one single department for administrative and other reasons, the expenditures relating thereto have to be booked under relevant functional major heads of account. In other words accounts classification is designed to enable working out of position of financial transactions on a function.

3.3.11 **Classification of common expenditure accounts :-** It is not however, possible to apply this rule strictly in respect of certain expenditures. At the apex of the administrative set up of the government generally more than one function is assigned to a ministry/administrative department to deal with the policy formulation and monitor its implementation in the field. Every secretariat department deals with a number of functions. It will be cumbersome if expenditure on secretariats is provided for under different functions to meet the requirements of functional classification. Normally, the alternative could be to book such expenditure initially under the major head relevant to the function predominantly attended to by a ministry/secretariat department and then distribute it on pro rata basis to the involved major heads of account but this will be equally a difficult accounting problem. In orders to overcome such a situation, the expenditure on secretariats

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is booked under "secretariat -general services", "secretariat - social services" "secretariat economic services" without distributing it among the major heads falling in a sector. It may also happen that a secretariat department is dealing with functions attributed to the functions falling under more than one sector. In that event, it is accounted for under the secretariat major head in the sector to which the major part of this work relates.

3.4.0. Codification of account heads

3.4.1. Same sectoral classification has been prescribed for expenditure within revenue account and capital expenditure out side the revenue account. Nomenclature of the account heads is also the same except for the words "capital outlay on" or loans for" as the case may be being prefixed to every such head of account in the capital account. Distinction of account heads is made with reference to the code numbers pre-fixed to every account head. The code is of four digits (xxxx). The first digit indicating revenue expenditure major head, capital expenditure major head, loans and advances head or that relating to public debts. These code numbers have been allotted in blocks as under:-

- Revenue receipts - 0020-1606
- Revenue expenditure - 2011- 4000
- Capital expenditure - 4046-5475
- Public debt - 6001-6004
- Loans and advances - 6075-7615
- Public account - 8001-8999

3.4.2. Every major head is given a distinct code number in the above blocks. For instance the code numbers given to general education and crop husbandry are as under: -

	General Education	Crop Husbandry
Revenue receipts	0202	0401
Revenue expenditure	2202	2401
Capital expenditure	4202	4401
Loans and advances	6202	6401

3.4.3. It will be noticed from the above table that whereas first digit has changed in every head of account the remaining three digits have remained the same. It will also be seen that if two (2) is added to the first digit of revenue receipts we get revenue expenditure head and by adding 2 to the revenue expenditure head we get capital expenditure head of a function and so on.

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3.4.4. Similarly, code numbers have been allotted to the programme (minor) heads of account, activity (sub-major) heads and objects of expenditure. In order to link basic input of expenditure (object of expenditure) to a function a thirteen (13)-digit code has been evolved in which the first four (4) digits indicate the function (major head), second two (2) digits activity or sub-dead and last two digits the object of expenditure. Thus, expenditure on salaries in SMGS Hospital will carry code No. 2210-01-110-03-01.

3.4.5. Such codification is necessary for computerization of the preparation of the budget and maintenance of government accounts.

3.5.0. Classification of Plan expenditure

3.5.1 Expenditure on different functions of the government is either non-plan expenditure or plan expenditure. Broadly, non-plan expenditure is that which has to be incurred for running of administration, maintenance of assets already created or meeting of pensionery and debt obligations of the government. In other words, such expenditure does not result in creation of assets or extension in the existing level of development in different spheres of activity. Plan expenditure, on the other hand, refers to the activities, which are undertaken as a result of implementation of pre-conceived plans. Such expenditures are either developmental in nature or such which will help in undertaking a developmental programme. Inspite of such a vivid difference between plan and non-plan expenditures, all transactions relate to one or the other activity under the three sectors of accounts classification viz general services, social services and economic services. Therefore, a transaction has both plan and non-plan components and both have to be classified as such. Thus, same classification is used for both plan and non-plan expenditures although the two are exhibited separately so that extent of developmental and non-developmental efforts under every activity could be ascertained at any time.

3.5.2. Recognizing the fact that taking up of a activities under a programme of a function may vary form state to state as also from time to time the state governments have been given liberty to open such sub-heads to accommodate the activities to meet the local requirements. Thus, a new activity taken up in the process of implementation of developmental plans or otherwise, a new sub-head can be opened under the relevant minor and major head of account. In this manner therefore, the functional or major head, sub-functional or sub-major head and the programme or minor head

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alone are fixed and can be supplemented or changed with the prior approval of the comptroller and auditor general of India except to the extent permitted by him as a general rule, if any. Sub-minor heads and objects of expenditure can be introduced or deleted by the respective governments at their own level and according to their requirement. In this way flexibility has been built in the system of accounts classification without disturbing its overall objective of uniformity and bringing out of developmental and non-developmenal efforts in a distinct manner.

3.6.0. Nature of revenue receipts and their classification

3.6.1. Revenue receipts are those which accrue to the government as a result of its functioning on recurring basis. These are different as compared to the capital receipts, which arise from sale of assets, recovery of loans and advances etc. Broadly, the sources of revenue receipts are grouped as under: -.

- **Tax revenue:** which accrue as a result of implementation of acts passed by the legislature and other statutory orders issued by the executive in terms of the laws of the land.
- **Non-tax revenue:** accruing from the various functions of the government.
- **Grants-in-aid/contributions:** represent transfer of resources from centre to the states on the basis of the awards of the finance commission or for plan purposes on the basis of the settlements reached with planning commission.

3.6.2. The major heads of account related to the revenue receipts, which are in operation as at present, are given in **chart 3.2.**

3.6.3. It will be seen that independent heads of account have been provided for recording transaction of every tax efforts and for every major non-tax source of income. Under every major heads of account, minor heads have been opened for recording details of receipts for various accounting and managerial purposes. In this process refunds of tax and non-tax revenues are booked under a separate head "deduct refunds". Since taxation is a major revenue realization effort "deduct refunds" is provided under each sub-head, subordinate to a relevant tax revenue major head of account. In case of non-tax revenue however, deduct-refunds". is provided as a sub-head under the concerned major head of account.

3.6.4. Transfer of resources form centre to the states in the form of "grants-in-aid" and "share in union excise duty" are recorded in the

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section "grants-in-aid/contribution". Under the constitution of India it is necessary for the central government to pay grant-in-aid to the federating units to enable them to cover gaps in their income and expenditure. Similarly, there are some taxes, which are levied and collected by the union government on account of various reasons. Proceeds of these taxes are also shared by the centre and the states in accordance with a formula(s) evolved and adopted in this behalf by the finance commission appointed for the purpose at periodical intervals, of five years in accordance with the provisions made in this behalf in the constitution. The finance commissions also determine level of grants-in-aid to be paid to different states. The financial relations between centre and the states have been discussed in chapter 2.0.0.

3.7.0. Expenditure within revenue account:

3.7.1. Major heads relating to the expenditure within the revenue account are grouped into the following sectors: -

- General Services
- Social Services
- Economic Services

3.7.2. Nature of account heads falling under these sectors of classification has already been explained. These heads are however, listed in **Chart 3.3.**

3.8.0. Capital expenditure outside revenue account

3.8.1. Capital expenditure in general terms refers to that which results in creation of assets or reducing a recurring liability. Expenditure on trading activities is also treated as capital expenditure outside the revenue account. Normally such activities are of a commercial nature and should not therefore, be handled by the government exclusively. These have to be left to the public sector or private entrepreneurs. Where, however, government intervention is necessary, it is accounted for as capital expenditure. The receipts as a result of such activities are taken as "deduct recoveries on capital account" so that net position thereof becomes known conveniently at one place of accounting. Net receipts i.e. when receipts are more than expenditure are taken to the relevant major head under "revenue receipts." On the other hand, where the expenditure exceeds the receipts, the gap is in the form of subsidy and is transferred to the concerned major heads under "expenditure within the revenue account."

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3.8.2. The capital major heads of accounts have been grouped into the same sections as have been provided for expenditure within the revenue account viz 'general services' social services' and 'economic services'. List of capital major heads of account is given in **Chart 3.4.**

3.9.0. Public debt

3.9.1. Public debt as the name implies is an attempt to give reflection to the financial transaction on account of channelisation of institutional and non-governmental funds for various budgeted developmental activities. This source of funding has a vast potential and is becoming an important part of the public finance these days.

3.9.2. As a result of developmental planning process saving capacity improves and it will be only right hat these are optimally chanalised for further developments. Similarly, buoyancy in industry, trade and commerce and for that matter in any other sector of economy can also be taped for improving resource mobilization by the government. After all tax and non tax revenue has it's own limit. Income from such sources cannot be stretched beyond a reasonable and tolerable limit.

3.9.3. The public debt as a source of public finance both for central and state governments has been categorized as under:-

Central government ☐ internal debts
external debts

State governments ☐ internal debts
Loans and advances from the central government

Internal debt:- Generally comprise of loans raised against treasury bills and issue of securities to RBI and other institutions. In case of state governments these also include ways and means advances obtained to tide over temporary short falls, which are caused by short-term excess of expenditure over the income and are generally liquidated before close of a financial year. Such advances are in fact in the form of over drafts.

3.9.5. **External debts:-** These are raised by the government from the global institutions and other countries under various pre-determined arrangements. For development of mankind in any part of the globe, the countries lend a supporting hand to one another. When such a support is in the form of a loan it becomes external debt for the

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receiving country. United nations organizations also establish some funds for various causes, which become available to various countries. Similarly, global banks also invest in financially viable schemes/programmes. Entering into such arrangements and deciding about quantum of such loans is a serious and thoughtful exercise. There has to be much more transparency in such loans. Transaction in respect of these loans are therefore, described in greater detail in the budget and accounts.

3.9.6. **Loans & advances from the central government:-** The central government advances loans to the states for various plan and non-plan purposes. Generally the loans are given under pre-defined arrangements. Plan loans are based on the parameters fixed for plan financing by the planning commission. Likewise some of the non-plan loans are given according to the yard sticks fixed by the finance commission. Some savings like small savings are mobilized at the national level under the over all managerial control of the central government. The resource thus built are shared by the central and state governments.

3.9.7. As already pointed out debt obligations of the government have to be much more transparent. Keeping this in view the list of major heads prescribed for the purpose is given in **Chart 3.5.** It has to be noted that receipts as also disbursements are recorded under the same relevant head of account so that net position of outstanding in respect of every debt obligation is properly brought out.

3.10.0 Loans and advances

3.10.1 The process of development or employees welfare involves giving of loans and advances for economic and social purposes. These loans and advances sometimes involve inter- state settlements also. As in case of transaction relating to 'public debt' the receipts and disbursements of loans and advances are also recorded under the same functional (major) head of account so that net outstanding in respect of each such loans and advances is easily ascertained at any given time or as and when required. List of account head prescribed for such transaction is given in **Chart 3.6.**

3.11.0. Public account

3.11.1. Nature of the transaction falling under this division of accounts as envisaged in the constitution has already been described earlier. List of major heads of accounts classification provided for in this

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division of accounts is given in **Chart 3.7.** Nature of the transactions grouped into different sections under the major heads of account is discussed hereunder: -

3.11.2. **Small savings, provident funds etc.:** - Transaction relating to small savings through its various schemes comprise saving deposits, saving certificates, state provident funds, public provident funds, trusts and endowments, insurance and pension funds and special deposits and accounts and the like. In respect of all these accounts the government operates as a trustee. The fact, however, remains that these funds become available for undertaking developmental works to boost the economy of the country.

3.11.3. Saving deposits and saving certificates are raised at the national level and therefore every state of the country has a share in the resources, thus mobilized. The present practice is that eighty per cent of the collections thus made in a state are advanced a loans to that state, bearing interest and a predefined schedule of repayment. These collections made by government of India, through retained by them as a trust in public account are transferred to the state as central loans who have to classify these under "public debt".

3.11.4 State provident funds and public provident funds become available both to the states and the central governments. These are in the form of compulsory deductions made form the salaries of the employees both in public and private sector as also matching contributions made thereto by the employers. The accounts relating to all such truncations are maintained separately by the respective governments and the net proceeds during a year retained by them also. This is equally true about the trusts and endowment as also insurance and pension funds.

3.11.5 For regulation of savings as also funds as indicated above every scheme has its own rules. This is true about the provident and pension funds created and maintained in the private sector also. The regulating authorities of these funds in this sector, generally have their own policy and rules for making investments therefrom. It is not compulsory for them to keep such deposits only with the government. Sometimes these authorities may decide to make investments in government bonds etc or lend money to them. In such situations the amounts received or repaid from these funds of the private sector are taken as loans form them and classified as such in the "public debts". In case such deposits are kept within the government, as such, these are accounted for in the "public

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account" and do not form part of the "consolidated fund" as it happens in the earlier situation.

3.11.6. Detailed accounts in respect of each account in this category are maintained by the designated authorities, which reflect position in totality as also for individual accounts.

3.11.7. **Reserve funds:-** These funds are created to meet both foreseeable and unforeseen liabilities that may come up in future to be met by the government. These funds help in discharging such liabilities without any serious drain on the state exchequer. Foreseeable reserve funds are in the nature of reserve funds, sinking funds, and other developmental funds. The unforeseen reserve funds are like natural calamity fund. A portion of normal revenue is kept apart on annual basis and the balances that may thus accumulate is used in future, as and when need arises.

3.11.8. **Depreciation funds:-** Are those which are created by the government departmental commercial undertakings in accordance with the requirements of commercial working for eventual replacement of its fixed assets at the expiry of their life. Such funds are kept by the government and are temporarily diverted to meet developmental commitments or are invest-ed in a manner that these become available as and then required. Such reserve funds when created involve transfer of funds which is treated as a charge on operating expenses under the relevant major head of account within the 'consolidated fund". At the close of the year such expenditure is taken as a deduct entry under the relevant head of account and taken, simultaneously as credit under prescribed account head in the 'reserve funds", section of the "public account." Separate major heads have been prescribed for regulating investments out of such funds within the same division of account viz "public account".

3.11.9. **General reserve funds:-** These include developmental funds created out of the general revenues of the state from year to year for creating a corpus for undertaking future development works not otherwise provided for in the approved five year or annual plans of the state like "development fund for agriculture purposes", "general insurance fund", "contribution to the reserve fund for electricity" and "general reserve" for development of departmental commercial undertakings.

3.11.10 **Sinking funds:-** Debt is an obligation, which has to be discharged by the government in accordance with the terms and conditions

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regulating such debts. In order to meet this requirement without any difficulty, a sinking fund is created. This head is credited with the amounts each year for the purpose out of the general revenues of the government. These amounts are transferred to the sinking fund by obtaining a valid appropriation from the legislature through provision made under the relevant major head (2048- Appropriation for reduction or avoidance of debt) in the consolidated fund. Sinking fund can be for individual debts or for all loans floated by the government. The sinking fund is, however, created only when it is obligatory to do so under law or undertaking given by the government in any loan raised by it. Sinking funds can be invested in a manner so that cash is readily available at the time of discharging a debt liability. Profits if any, realized on such investments are also credited to the sinking fund investment account. It may, however, be noted that in order to bring repayment of debts within the preview of the legislative control these are provided for in the 'public debt'. The balances in the sinking fund account are transferred to the miscellaneous government account (ledger balance adjustment account), which falls in the public account.

3.11.11 **Famine relief fund: -** This is generally a statutory fund, which is created for meeting unforeseen eventualities on account of natural calamities. It is credited with transfers made from revenue account and interest/gains raised from investments made form such funds. Payments out of the famine relief fund for the purposes(s) for which it has been established are regulated through consolidated fund. Again, the idea being that such expenditures should be authorized by the legislature. The term famine is to be interpreted in its widest sense to cover natural calamities of all types, such as floods, drought, earthquakes etc.

3.11.12 **Central road fund: -** This fund is constituted out of the excise and import duties on motor spirits and is earmarked for development of roads. The amount sanctioned each year for credit to this fund is transferred by the central government to the states, to the extent of 80% of the accumulations. Transfer of these funds to the states is related to the road works approved to be taken up as central road fund works from year to year. The funds received by the states from the centre are classified in their accounts as 'subversion from central road fund' under the section "deposits and advances". Expenditure on such works is initially booked by the states under the relevant major head of account in the consolidated fund which is

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then set aside by transfer to account head 'subversion from central road fund' at the close of each year.

3.12.0 Deposits and advances

3.12.1 Deposits are both interest bearing and non-interest bearing. Grouping of transactions into these categories depends upon the terms and conditions attached to the acceptance of such deposits by the government or law relating to their regulation. The deposit and advance heads relating to railways, defense, post and telecommunications are operated upon by the central government. The deposits and advances of local funds, civil and others are, on the other hand, operated upon both, by the central and state governments.

3.12.2. The deposits of local funds include deposits of the municipal corporations, municipalities and town area and notified committees. Deposits of housing boards, state electricity boards and of other autonomous bodies are also accounted for as deposits of local funds. The government companies, corporations etc. can also open deposit accounts with the state government.

3.12.3. Deposits made in the judicial and revenue courts on various accounts are also accounted for in this section. Payment of compensation to be made for acquisition of land for various public purposes are also part of revenue deposits. Security deposits from the contractors in case decided to be retained by the government under certain circumstances are also accounted for here. Other deposits include personal deposits, deposits of educational institutions, deposits of trusts etc.

3.13.0 Suspense, miscellaneous and remittances

3.13.1. This section of public account is intended for classification of such of the transactions, which cannot be taken to the final heads of account at the time of their occurrence due to one reason or the other. Public works, forest and other commercial departments are authorized to draw their financial requirement or deposit their collections into the treasury in lump and maintain their detailed account at their own level as departmental chest holders. These departments render accounts direct to the accountant general. Transactions of these departmental chest holders with the treasury are temporality accounted for under this section of the public account. Similarly, cash remittances from one treasury to another

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and resultant cash in transit are also accounted for here. The coinage accounts, cash balances including permanent cash imprests and deposit balances together with cash balance investments, security deposits of the government are also components of public account.

3.13.2 Adjusting account as also settlement accounts of officers rendering accounts to the same or different accounts officers together with the adjusting accounts as between different governments within or outside the country form part of this section of the public account.

3.14.0 Over all view of the pattern of classification

3.14.1 The over all view of the pattern of classification, in other words structural frame of the budget and accounts is presented in the charts appended to this chapter.

3.14.2 The recommendations of the team of officers which form basis of the pattern of classification adopted in the year 1974-75 have been reviewed subsequently which has not, however, brought about any change in its basic principles and broad structure continues to remain as before. In order, however, to bring better correlation between plan schemes and account head, a few major heads have been raised to the level of sub-sectors and minor heads to major heads because of their importance. Similarly, to facilitate computerization based on financial information system, the earlier scheme of codification has also been revised. All heads upto minor head level have been given code numbers. These modifications have been made effective form 1987-88 and a revised list of major and minor heads of account issued by the comptroller and auditor general of India in terms of Art 150 of the constitution. These changes have been accounted for in the charts appended to his chapter. General directions for adopting revised classification as prescribed by the CAG are reproduced in **Appendix -01.**

3.14.3 The functional classification as has been made clear is followed with a twine objective of booking the public expenditure on an identified function in a manner so as to present an over all view of its implications irrespective of the department/organization authorizing it and co-relating the developmental (plan) and non-development (non-plan) expenditures on a function. It has been, however, found that this pattern of classification is not followed strictly in plan formulation, its monitoring and evaluation. The planning machinery continues to follow the earlier plan expenditure classification with

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some modifications here and there. Plan programmes are no doubt provided for in the general budget according to the approved system of classification - a legal requirement for obtaining appropriations from the legislature and expenditure is also booked by the implementing agencies accordingly. The fact, however, remains that the plan expenditure classification adopted in the plan document is different which makes the co-relation between the outlays and the expenditures booked there against in the government accounts a difficult process. Under these circumstances, the planning machinery mainly depends upon the expenditure booked by the various departments and other agencies of the government at their own level. Since such accounts are not linked to the transactions originating in the treasury (a focal point for maintenance of government accounts) their dependability is debatable, more so for various account settlements including devolution of resources from Centre to the States. Broad details of classification followed in the plan document and that followed in the budget presented to the Legislature is reflected in **Appendix-02**. (The J&K State experience). It will be seen that whereas in the plan formulation sectoral classification is followed as against the functional pattern prescribed for the country under constitutionally valid orders. Continuing with the earlier system of classification for plan purposes is because no attempt has been made to bring it at par with the budget. It may be also because the conventional system of plan classification gives more liberty to the plan implementing agencies to make adjustments in the outlays as may be required from time to time. This argument is not, however, well founded as new pattern of classification can also give such liberties besides being more meaningful and purposeful in its content. A lot of thought has gone into its development and it is in keeping with the national and international requirements of the financial management. Even without stretching this argument too far, following a similar structural framework for providing of outlays and expenditures has necessarily to be followed as otherwise there will be no comparisons of the two, which is highly essential for eventual analysis of inputs and outputs.

3.14.4. Under these circumstances, two data basis are also created- one based on departmental figures and the other on the figures computed by the Accountant General. The two sets of figures seldom reconcile leading to a confusing situation, which needs to be rectified. Once the new system of classifications is followed for plan purposes also, it will besides bringing out a clear picture facilitate computerization of accounts and formulation of the budget. It needs to be noted that functional system of classification has an

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inbuilt orientation for computerization. Code numbers have been prescribed for all the tiers of classifications and in order to ensure its uniformity throughout the country no change can be brought about in this scheme of codification except with the sanction of the competent authority. We have to re-structure accounting classification for the planning purposes. It will no doubt make changes in presentation of a plan document but it will not at the same time involve any change in the fundamentals of the whole planning process right from conceptual stage to the conclusion of evaluation. A co-relation between plan and non-plan expenditures can be conveniently developed.

3.14.5 Switching over to functional classification in respect of plan expenditures should not be a difficult process because all the fundamentals, required for the purpose are well laid. As an illustration, the sector "agriculture and allied services" of the plan has been transcribed into functional classification in **Appendix-03.** (again a J&K experience). The salient features of functional classify-cation to be followed for this sector are mentioned as under: -

- "Agriculture and allied services " is the first sub-section of the section "economic service" one of the four sections of the accounts classification.
- The transactions have to be classified into three parts, viz revenue account, capital account and loans and advances. In the revenue account, functional (major) heads have been provided with code numbers from 2401-2408, 2415-2416, 2425 and 2435. Various activities have been grouped into programmes and various programmes into functions. Every activity and programme has also been allotted a separate code number. Similar number of functional heads have been opened in the capital and loans and advances.
- The activities and programmes under functions have been identified and grouped with great care after a detailed countrywide study keeping sufficient scope to accommodate future requirements also.

3.14.6 The above features hold good for other sectors of plan also. Once the functional classification is adopted in this manner it will lend a great help for scientific planning and evaluation of plan programmes.

3.14.7 For itemized control of expenditure inputs; these have been standardized as can be seen from the details given in **Appendix-04.**

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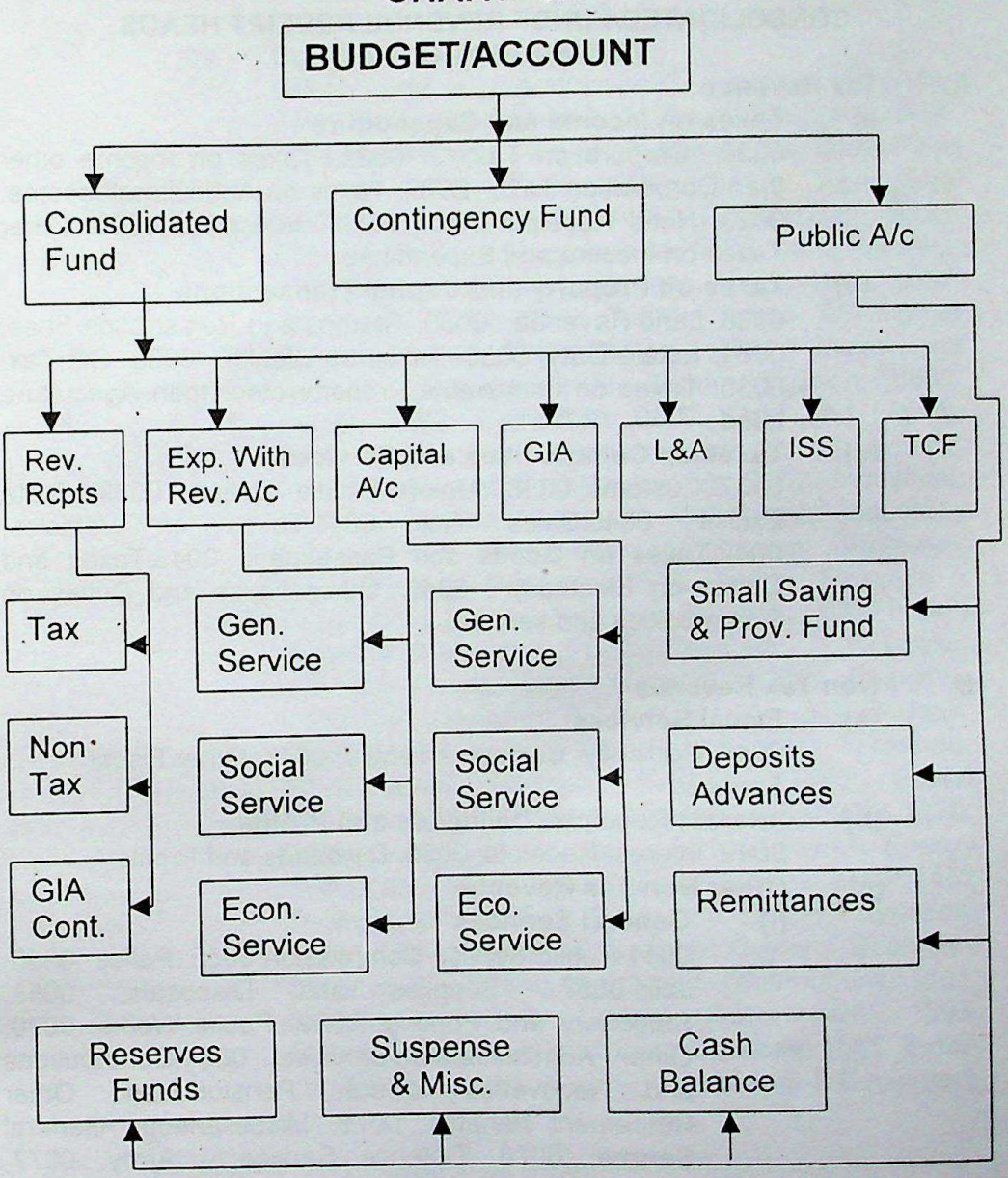
CHART- 3.1



GS=General Service, SS=Social Service, ES=Economic Service, GIA=Grants-in-aid, L&A=Loans & Advances, ISS=Interstate Settlements, TCF=Transfer to contingency fund, SSPF=Small Savings & Provident Funds, RF=Reserve Fund, D&A=Deposits & Advances, S&M=Suspense & Misc., R=Remittances, CB=Cash Bal.

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CHART 3.2.

(Ref. Para 3.6.2)

CONSOLIDATED FUND - REVENUE RECEIPT HEADS (REVENUE ACCOUNT)

A. Tax Revenue

a) Taxes on Income and Expenditure

0020. Corporation Tax, 0021. Taxes on Income other than Corporation Tax , 0022. Taxes on Agricultural Income, 0023. Hotel Receipts Tax , 0024.Interest Tax,0028. Other Taxes on Income and Expenditure

(b) Taxes on Property and Capital Transactions

0029. Land Revenue, 0030. Stamps and Registration Fees, 0031. Estate Duty, 0032. Taxes on Wealth, 0033. Gift Tax, 0035. Taxes on Immovable Property other than Agriculture Land

(c) Taxes on Commodities and Services

0037.,Customs, 0038. Union Excise Duties, 0039. State Excise, 0040.Sales Tax, 0041.Taxes on Vehicles, 0042.Taxes on Goods and Passengers, 0043.Taxes and Duties on Electricity , 0045. Other Taxes and Duties on Commodities and services

B. Non Tax Revenue

(a) Fiscal Services

0046. Currency, Coinage and Mint, 0047. Other Fiscal Services

(b) Interest Receipts, Dividends and Profits

0049. Interest Receipts, 0050. Dividends and Profits

(c) Other Non-Tax Revenue

(i) General Services

0051.Public Service Commission 0055. Police 0056. Jails 0057. Supplies and Disposals, 0058. Stationery and Printing, 0059. Public Works, 0070. Other Administrative Services, 0071.Contributions and Recoveries towards Pension and Other Retirement benefits, 0075. Miscellaneous General Service, 0076. Defence Service – Army, 0077. Defence Service – Navy, 0078. Defence Service - Air Force, 0079. Defence - Ordnance Factories,

(ii) Social Services

0202. Education, Sports Art and Culture, 0210. Medical and Public Health,0211. Family Welfare, 0215. Water Supply and Sanitation, 0216. Housing, 0217. Urban Development, 0220. Information and

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Publicity, 0221. Broadcasting, 0230. Labour and Employment , 0235. Social Security and Welfare, 0252.Other Social Services

(iii) **Economic Services**

0401. Crop Husbandry, 0403. Animal Husbandry, 0404. Dairy Development, 0405. Fisheries, 0406. Forestry and Wild Life, 0407. Plantations, 0408. Food Storage and Warehousing, 0415. Agricultural Research and Education, 0425.Co-operation, 0435. Other Agricultural Programmes, 0506. Land Reforms, 0515.Other Rural Development Programmes, 0551. Hill Areas, 0552. North Eastern Areas, 0575.Other Special Areas Programmes, 0701. Major and Medium Irrigation, 0702. Minor Irrigation, 0801. Power, 0802. Petroleum ,0803. Coal and Lignite, 0810. Non Conventional Sources of Energy, 0851.Village and Small Industries, 0852. Industries, 0853Non-ferrous Mining and Metallurgical Industries ,0875 Other Industries, 1001Indian Railways-Miscellaneous Receipts 1002. Indian Railways - Commercial Lines - Revenue Receipts, 1003.Indian Railways-Strategic Lines-Revenue Receipts, 1051.Ports and Light Houses, 1052. Shipping, 1053.Civil Aviation,1054. Roads & Bridges, 1055.Road Transport,1056 Inland Water Transport, 1075. Other Transport Services, 1201. Postal Receipts,1225.Telecommunication Receipts,1275. Other Communication Services,1401.Atomic Energy Research, 1425 Other Scientific Research,1452 Tourism,1453. Foreign Trade and Export Promotion, 1456. Civil Supplies,1475. Other General Economic Services, C - Grants-In-Aid and Contributions, 1601. Grants-in-aid from Central Government, 1603. State's Share of Union Excise Services, 1605. External Grant Assistance,1606. Aid Material & Equipment

CHART 3.3.

(Ref. Para 3.7.2)

EXPENDITURE HEADS (REVENUE ACCOUNT)

A. **General Services**

(a) **Organs of State**

2011. Parliament/State/Union Territory Legislatures, 2012. President, Vice-President/Governor/Administrator of Union

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Territories, 2013. Council of Ministers 2014. Administration of Justice, 2015. Elections, 2016. Audit

(b) **Fiscal Services**

(i) **Collection of Taxes on Income and Expenditure**
2020. Collection of Taxes on Income and Expenditure

(ii) **Collection of Taxes on Property and Capital Transactions**
2029. Land Revenue, 2030. Stamps & Registration, 2031.Collection of Estate Duty, Taxes on Wealth and Gift Tax, 2035. Collection of Other Taxes on Property and Capital Transactions

(iii) **Collection of Taxes on Commodities and Service**
2037.Customs, 2038. Union Excise Duties, 2039. State Excise, 2040.Sales Tax 2041. Taxes on Vehicles, 2045. Other Taxes and Duties on Commodities and Services

(iv) **Other Fiscal Services**
2046.Currency, Coinage and Mint, 2047 Other Fiscal Services

(c) **Interest payment and servicing of Debt**
2048. Appropriation for reduction or avoidance of debt 2049.Interest Payments

(d) **Administrative Services**
2051. Public Service Commission 2052. Secretariat - General Services 2053.District Administration, 2054. Treasury and Accounts Administration, 2055. Police, 2056. Jails, 2057. Supplies and Disposals, 2058. Stationery and Printing, 2059. Public Works, 2061. External Affairs, 2070.Other Administrative Services

(e) **Pensions and Miscellaneous General Services**
2071. Pensions and Other Retirement benefits, 2075. Miscellaneous General Services

(f) **Defence Services**
2076. Defence Services- Army, 2077. Defence Services-Navy, 2078. Defence Services- Air Force 2079. Defence Services - Ordnance Factories

B. **Social Services**

(a) **Education, Sports, Art and Culture**
2202. General Education, 2203. Technical Education, 2204.Sports and Youth Services, 2205. Art and Culture

(b) **Health and Family Welfare**
2210. Medical and Public Health, 2211. Family Welfare

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(c) **Water Supply, Sanitation, Housing and Urban Development**
2215. Water Supply and Sanitation, 2216. Housing, 2217. Urban Development

(d) **Information and Broadcasting**
2220. Information and Publicity, 2221.Broadcasting

(e) **Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes**
2225. Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes

(f) **Labour and Labour Welfare**
2230. Labour and Employment

(g) **Social Welfare and Nutrition**
2235. Social Security and Welfare, 2236. Nutrition, 2245.Relief on account of Natural Calamities

(h) **Others**
2251. Secretariat - Social Services, 2252. Other Social Services

C. **Economic Services**

(a) **Agriculture and Allied Activities**
2401. Crop Husbandry, 2402. Soil and Water Conservation, 2403. Animal Husbandry, 2404. Dairy Development, 2405.Fisheries, 2406. Forestry and Wild Life 2407. Plantations, 2408. Food Storage and Warehousing, 2415.Agricultural Research and Education,2416. Agricultural Financial Institutions, 2425. Co-operation, 2435. Other Agricultural Programmes

(b) **Rural Development**
2501. Special Programmes for Rural Development, 2505. Rural Employment, 2506. Land Reforms, 2515. Other Rural Development Programmes

(c) **Special Areas Programmes**
2551. Hill Areas, 2552. North Eastern Areas, 2575. Other Special Areas Programmes

(d) **Irrigation and Flood Control**
2701. Major and Medium Irrigation, 2702. Minor Irrigation, 2705. Command Area Development, 2711. Flood Control and Drainage

(e) **Energy**
2801. Power, 2802. Petroleum, 2803. Coal and Lignite, 2810. Non -Conventional Sources of Energy

(f) **Industry and Minerals**

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2851. Village and Small Industries, 2852. Industries, 2853. Non-ferrous Mining and Metallurgical Industries,2875.Other Industries,2885. Other Outlays on Industries and Minerals

(g) **Transport**

3001. Indian Railways-Policy Formulation, Direction, Research and other Miscellaneous organization, 3002.Indian Railways - Commercial Lines - working expenses,3003. Indian Railways - Strategic Lines - Working expenses, 3004. Indian Railways - Open Line Works (Revenues),3005. Payments to General Revenues, 3006. Appropriation from Railway Surplus, 3007.Repayment of Loans taken from General Revenue, 3025.Payment towards amortization of over capitalization, 3051. Ports and Light Houses, 3052. Shipping,3053.Civil ,Aviation, 3054.Roads and Bridges, 3055. Road Transport, 3056.Inward Water Transport, 3075.Other Transport Services

(h) **Communications**

3201. Postal Services, 3225.Telecommunication Services, 3230. Dividends to General Revenues, 3231.Appropriations from Telecommunications,3232. Repayment of Loans taken from General Revenue by Telecommunications, 3252. Satellite System, 3275.Other Communication Services

(i) **Science Technology and Environment**

3401. Atomic Energy Research, 3402. Space Research, 3403.Oceanographic Research, 3425. Other Scientific Research, 3435. Ecology and Environment

(j) **General Economic Services**

3451. Secretariat - Economic Services, 3452. Tourism, 3453. Foreign Trade and export Promotion,3454.Census Surveys and Statistics,3455. Meteorology,3456.Civil Supplies, 3465. General Financial and Training Institutions, 3466. International Financial Institutions, 3475. Other General Economic Services

D. **Grants- in - aid and contributions**

3601. Grants-in-aid to State Governments,3602. Grants-in-aid to Union Territory Governments, 3603. Payment to States' share of Union Excise Duties,3604. Compensation and Assignments to Local Bodies and Panchayati Raj Institutions, 3605. Technical and Economic Co-operation with other countries 3606. Aid Materials and Equipment, 4000 Miscellaneous Capital Receipts

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CHART 3.4
(Ref. Para 3.8.2)
EXPENDITURE HEADS (CAPITAL ACCOUNT)

A. **Capital Account of General Services**
4046.. Capital Outlay on Currency, Coinage and Mint,4047.Capital Outlay on Fiscal Services, 4058. Capital Outlay on Stationery and Printing, 4059. Capital Outlay on Public Works, 4070.Capital Outlay on other Administrative Services, 4075. Capital Outlay on Miscellaneous General Services, 4076. Capital Outlay on Defence Services

B. **Capital Account of Social Services**
(a) **Education, Sports, Art and Culture**
4202. Capital Outlay on Education, Sports, Art and Culture
(b) **Health and Family Welfare**
4210. Capital Outlay on Medical and Public Health, 4211. Capital Outlay on Family Welfare
(c) **Water Supply, Sanitation, Housing and Urban Development**
4215. Capital Outlay on Water Supply and Sanitation, 4216. Capital Outlay on Housing, 4217. Capital Outlay on Urban Development
(d) **Information and Broadcasting**
4220. Capital Outlay on Information and Publicity, 4221. Capital Outlay on Broadcasting
(e) **Welfare of scheduled Castes, Scheduled Tribes and other Backward Classes**
4225. Capital Outlay on Welfare of Scheduled castes Scheduled Tribes and other Backward Classes
(f) **Social Welfare and Nutrition**
4235. Capital Outlay on Social Security and Welfare, 4236 Capital Outlay on Nutrition
(g) **Others**
4250. Capital Outlay on other Social Services

C. **Capital Accounts of Economic Services**
(a) **Capital Account of Agriculture and Allied Activities**
4401. Capital Outlay on Crop Husbandry, 4402. Capital Outlay on Social and Water conservation, 4403. Capital Outlay on Animal Husbandry, 4404. Capital Outlay on Dairy Development, 4405. Capital Outlay on Fisheries, 4406. Capital Outlay on Forestry and Wild Life, 4407.Capital

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Outlay on Plantations, 4408. Capital Outlay on Food storage and Wares housing, 4415.Capital Outlay on Agricultural Research and Education, 4416.Investments in Agricultural Financial Institutions, 4425. Capital Outlay on Co-operation, 4435.Capital Outlay on other Agricultural Programmes

(b) **Capital Account of Rural Development**

4515. Capital Outlay on other Rural Development Programmes

(c) **Capital Account of Special Areas Programme**

4551. Capital Outlay on Hill Areas, 4552.Capital Outlay on North Eastern Areas, 4575. Capital Outlay on Other Special Areas Programmes

(d) **Capital Account of Irrigation and Food Control**

4701. Capital Outlay on Major and Medium Irrigation, 4702. Capital Outlay on Minor Irrigation, 4705.Capital Outlay on Command Area Development, 4711. Capital Outlay on Flood Control Projects

(e) **Capital Account of Energy**

4801. Capital Outlay on Power Projects, 4802.Capital Outlay on Petroleum, 4803. Capital Outlay on Coal and Lignite, 4810. Capital Outlay on Non-Conventional Sources of Energy,

(f) **Capital Account of Industry and Minerals**

4851. Capital Outlay on Village and Small Industries, 4852.Capital Outlay on Iron and Steel Industries, 4853. Capital Outlay on Non-ferrous Mining and Metallurgical Industries, 4854.Capital Outlay on Cement and Non-metallic Mineral Industries, 4855.Capital Outlay on Fertilizer Industries,4856.Capital Outlay on Petro-Chemical Industries, 4857. Capital Outlay on Chemicals and Pharmaceutical Industries, 4858. Capital Outlay on Engineering Industries, 4859.Capital Outlay on Telecommunication and Electronic, Industries, 4860. Capital Outlay on Consumer Industries, 4861.Capital Outlay on Atomic Energy Industries, 4875. Capital Outlay on other Industries, 4885.Capital Outlay on Industries and Minerals

(g) **Capital Account of Transport**

5002. Capital Outlay on Indian Railways - Commercial Lines, 5003. Capital Outlay on Indian Railways - Strategic Lines, 5051. Capital Outlay on Ports and Light Houses, 5052. Capital Outlay on Shipping, 5053.Capital Outlay on Civil Aviation, 5054.Capital Outlay on Roads and Bridges,5055. Capital Outlay on Road Transport, 5056.

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Capital Outlay on Inland and Water Transport 5075.Capital Outlay on other Transport Services

(h) **Capital Account of Communication**

5201. Capital Outlay on Postal Services, 5225. Capital Outlay on Telecommunication Services, 5252.Capital Outlay on Satellite System, 5275. Capital Outlay on Other Communication Services

(i) **Capital Account of Science Technology and Environment**

5401. Capital Outlay on Atomic Energy Research, 5402.Capital Outlay on Space Research, 5403. Capital Outlay on Oceanographic Research, 5425. Capital Outlay on other scientific and Environmental Research

(j) **Capital Account of General Economic Services**

5452. Capital Outlay on Tourism, 5453. Capital Outlay on Foreign trade and Export Promotion, 5455. Capital Outlay on Meteorology, 5465. Investments in General Financial and Trading Institutions, 5466 Investment in International Financial Institutions, 5475.Capital Outlay on Other General Economic Services

CHART 3.5

(Ref. Para 3.9.7)

PUBLIC DEBT

6001. Internal Debt of Central Government, 6002. External Debt, 6003. Internal Debt of the State Government, 6004. Loans and Advances from the Central Government

CHART 3.6.

(Ref. Para 3.10.1)

LOANS AND ADVANCES

6075. Loans for Miscellaneous General Services, 6202. Loans for Education, Sports, Art and Culture, 6210.Loans for Medical and Public Health, 6211.Loans for family Welfare, 6212. Loans for Nutrition, 6215. Loans for Water Supply and Sanitation, 6216. Loans for Housing, 6217.Loans for Urban Development, 6220. Loans for Information and Publicity, 6225.Loans for Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes, 6235. Loans for Social Security and Welfare, 6245. Loans for Relief on account of Natural Calamities, 6250.Loans for other Social Services , 6401.Loans for Crop Husbandry, 6402. Loans for Soil and Water Conservation, 6403. Loans for Animal Husbandry, 6404. Loans for Dairy development, 6405. Loans for Fisheries, 6406. Loans for Forestry and Wild Life, 6407. Loans for Plantations, 6408. Loans for Food Storage and Warehousing, 6416. Loans for Agricultural Financial Institutions, 6425.Loans for Co-operation, 6435. Loans for Agricultural Programmes, 6501. Loans for Special Programmes for Rural Development,

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6505.Loans for Rural Employment,6506. Loans for Land Reforms, 6515. Loans for Other Rural Development Programmes, 6551.Loans for Hill Areas, 6552. Loans for North Eastern Areas, 6575. Loans for other Special Areas Programmes, 6701.Loans for Major and Medium Irrigation,6702.Loans for Minor Irrigation, 6705.Loans for Command Area Development, 6711.Loans for Flood control Projects, 6801.Loans for Power Projects, 6802. Loans for Petroleum,6803. Loans for Coal and Lignite, 6810.Loans for Non -Conventional Source of Energy, 6851.Loans for Village and Small Industries,6852.Loans for Iron and Steel Industries,6853. Loans for Non- ferrous Mining and Metallurgical Industries,6854. Loans for Cement and Non-Metallic Mineral Industries,6855. Loans for Fertilizer Industries, 6856.Loans for Petro -Chemical Industries,6857. Loans for Chemical and Pharmaceutical Industries,6858. Loan for Engineering Industries, 6859.Loans for Telecommunication and Electronic Industries, 6860. Loans for consumer Industries,6861.Loans for Atomic Energy Industries, 6875. Loans for other Industries ,6885.Loans for other Industries and Minerals,7002. Loans to Railways,7051.Loans for Ports and Light Houses,7052.Loans for Shipping,7053.Loans for Civil Aviation,7055.Loans for other Transport Services,7056.Loans for Inland Water Transport, 7075. Loans for other Transport Services,7225.Loans for Telecommunication Services,7275.Loans for other Communication Services,7425.Loans for other Scientific Research,7452.Loans for Tourism, 7453.Loans for foreign Trade Export Promotion,7465.Loans for General Financial and Trading Institutions,7475.Loans for other General Economic Services,7601.Loans and Advances to Union Territory Governments, 7605.Advances to Foreign governments, 7610.Loans to Government Servants, etc.,7615. Miscellaneous Loans, 7810 Inter State Settlement, 7999Appropriation to the Contingency Fund, 8000 Contingency Fund

CHART 3.7

(Ref. Para 3.11.1)

PUBLIC ACCOUNT

1. **Small Savings, Provident Funds, etc.**
   - (a) **Small Savings**
     8001. Savings Deposits, 8002. Savings Certificates
   - (b) **Provident Funds**
     8005. State Provident Funds, 8006. Public Provident Funds
   - (c) **Other Accounts**
     8010. Trusts and Endowments, 8011. Insurance and Pension Funds, 8012. Special Deposits and Accounts
2. **Reserve Fund**
   - (a) **Reserve Funds bearing interest**

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8115. Depreciation/Renewal Reserve Fund, 8116. Revenue Reserve Funds, 8117.Development Funds, 8118.Capital Reserve Funds,8121. General and Other Reserve Funds

(b) **Reserve Funds not bearing Interest**

8222. Sinking Funds, 8223. Femine Relief Fund, 8224. Central Road Funds, 8225. Roads and Bridges Fund, 8226.Depreciation/Renewal Reserve Fund, 8228. Revenue Reserve Funds, 8229. Development and Welfare Funds,8235.General and Other Reserve Funds

3. **Deposits and Advances**

(a) **Deposits bearing Interest**

8336. Civil Deposits, 8337. Deposits of Railways,8338. Deposits for local Funds, 8342. Other Deposits,

(b) **Deposits not bearing Interest**

8443. Civil Deposits, 8444. Defence Deposits, 8445. Railway Deposits, 8447.Telecommunication Deposits,8448. Deposits of Local Funds, 8449.Other Deposits,8450. Balance Account of Union Territories

(c) **Advances**

8550. Civil Advances, 8551. Defence Advances, 8552. Railways Advances, 8553. Postal Advances, 8554. Telecommunication Advances

4. **Suspense And Miscellaneous**

(a) **Coinage Accounts**

8656. Coingage Accounts

(b) **Suspense**

8658. Suspense Accounts

(c) **Other Accounts**

8670. Cheques and Bills, 8671.Departmental Balances, 8672. Permanent Cash Imprest, 8673. Cash Balance Investment Account, 8674. Security Deposits made by Government, 8675. Deposits with Reserve Bank

(d) **Accounts with Government of Foreign Countries**

8679. Accounts with Government of other Countries

(e) **Miscellaneous**

8680. Miscellaneous Government Accounts

5. **Remittances**

(a) **Money Orders, and other Remittances**

8781, Money Orders , 8782. Cash Remittances and adjustments between officers rendering accounts to the same Accounts Officer, 8785. Other Remittances

(b) **Inter-Government Adjustment Account**

8786. Adjusting Account between Central and State Governments, 8787.Adjusting Account with Railways,

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8788.Adjusting Account with Posts,8789. Adjusting Account with Defence, 8790. Accounts with States etc. (Railways), 8791. Accounts with States etc. (Posts), 8792. Accounts with States etc. (Defence), 8793. Inter- State Suspense Account, 8794. Accounts with the High Commissioner for India in United Kingdom

(c) **Exchange Accounts**

8797. Exchange Accounts

6. **Cash Balance**

8999. Cash Balance

Appendix-01

(Ref. Para 3.14.2)

CAG's General Directions for adopting revised classification as indicated in the list of Major and Minor Heads of Account of union and states.

1.0. General

1.1. The minor heads prescribed under each major/sub-major head in this list and also permitted to be opened as detailed in the subsequent paragraphs of these directions may be divided into such subordinate heads (called 'sub-heads') as may be needed to suit the local requirement of each Government. The "sub-head" of Classification denotes and identifies the schemes undertaken in pursuance of programmes represented by minor heads or components of a particular programme, if the programme does not have any scheme , but represents non-developmental expenditure or expenditure of an administrative nature. The sub-heads should not be multiplied unnecessarily and new ones opened only when really necessary.

1.2. Formal approval/issue of amendments by Correction slips is not required for opening of new minor heads in the following circumstances :-

(a) In the cases specified in the subsequent paragraphs of these directions with nomenclature of the heads indicated therein (e.g. "Direction and Administration", "Other Expenditure" indicated in para 3.1. below).

(b) In cases where mere guidelines are indicted in the column for 'Minor Heads' in this list, such as for example "Each project will be a minor head" against the major head "2701/4701/6701" for "Major and Medium Irrigation". However, for opening new minor heads in terms of foot-

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notes below major heads or other wise, formal approval/issue of correction slips would be required.

2.0. Receipt Heads

2.1. The minor head "Services and Service Fees "(code '501') may be opened under the receipt major/sub-major heads, wherever it has not been provided, if necessary.

2.2. "Deduct-Refunds" (code '900') may be opened as a minor head under the major/sub-major heads falling in the sector "B. Non-Tax Revenue", unless it is not practicable to account for such refunds as sub-heads below the concerned programme minor heads under the relevant major/sub-major heads. This minor head may also be opened under the major/sub-major heads of the sector "C. Grants-in Aid and Contributions" . In respect of major/sub-major heads falling under the sector. "A. Tax Revenue", the head "Deduct-Refunds" should however be opened as a distinct sub-head below the appropriate minor heads so that the net collection of each tax/Duty is readily ascertainable from the accounts. See, however, note below the major head "0037. Customs" for the accountal of "Deduct-Refunds" and "Deduct-Drawbacks",

2.3. The minor head "Other Receipts" (code '800') may be opened under the receipt major/sub-major heads, wherever it has not been provided. Interalia the following sub-heads may be opened under this minor head :

(i) Leave Salary Contributions

(ii) Sale proceeds of dead-stock, waste paper and other articles, the cost of which was met from office expenses.2.4. In addition to the minor heads prescribed under the major head "1601.Grants - in -Aid from Central Government", new minor heads, corresponding to programme minor heads in the Section "Expenditure Heads (Revenue Account) to which the assistance form Central Government relates, may be opened in the same manner as indicated in Direction No.3.9. below.

3.0. Expenditure Heads (Revenue Account)

3.1. The following minor heads, even where not specifically prescribed may be opened below the major/sub-major heads, wherever necessary.

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(a) "Direction and Administration" (code 001) (being placed as the first minor head)

(b) "Other Expenditure" (code '800') (being placed as the last minor head) Where there is a separate establishment expenditure for "monitoring evaluation and statistics," the expenditure on such establishment may be distinctly recorded in accounts under a sub-head under "Direction and administration" or other appropriate minor head as the case may be.

Note :-The minor head "Direction and Administration "when required to be operated in Irrigation, Roads and Bridges, Public Health etc, Division working on P.W.D. Pattern will record expenditure on Designs, Architecture, stores control etc. "for which distinct sub head may be opened.

3.2. The minor head "International Co-operation "(Code '798') may be opened under the functional major/sub-major heads wherever necessary, to record the contributions to the international organizations related to specific functions(e.g. United Nations Children' Emergency Fund (UNICEF). World Health Organization (WHO), International Labour Organization (ILO), etc.). A suitable sub-head indicating the name of the conference/meeting arranged by a Ministry/Department may be opened under this minor head wherever the expenditure thereon is not expected to justify opening of a separate minor head. Where, however, the expenditure is estimated in a year is substantial (i.e. expected to be Rs. 1 crore or more,) a minor head titled "International Conference/Meeting" (code '790') may be opened below the functional major/sub-major head concerned. See also Note (1) below or the major head "3605 - Technical and economic Co-operation with other Countries".

3.3. If necessary the minor head with nomenclature "Irrecoverable Loans Written Off "(code '792') may be opened under the various functional major/sub-major heads depending upon the purposes for which the loans or advances were granted. Where however, the purpose cannot be identified with any functional major head the amount written off should be adjusted under the minor head "Irrecoverable loans written off" (code '795') below the major head "2075. Miscellaneous General Services".

"Loans to State Govt. written off" may be adjusted under a distinct sub-head of the same nomenclature below the minor head "Irrecoverable loans written off" under the major head '2075'.

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3.4. The minor head "Transfers to/from Reserve Funds and Deposit Accounts "(code '797') may be opened wherever necessary under the functional major/sub-major heads in the section "Expenditure heads(Revenue Account)". Under this minor head 'Transfers to/from' specific Reserve Funds and deposits accounts will appear as a distinct sub-head with nomenclature "Transfers to/from ..... (name of Reserve Fund/Deposit Account)", with a detailed head "Inter-Account Transfer". The actual expenditure (financed from Funds/Deposits Accounts), will be debited tot he relevant programme minor head under the functional major head in the Revenue Section, Capital Section or Loans section depending on whether the expenditure is of a revenue, capital or loan nature. Recoveries made from the Funds/Deposit Accounts (Expenditure met from the Funds/Deposit Account- Styled 'Deduct Amount met from ..... Reserve Fund/ Deposit Account' below the minor head Transfers to/from Reserve Funds/Deposit Accounts under the functional major head in the Revenue, Capital or loan section where under the actual expenditure stands debited.

3.5. Whenever expenditure is recorded initially under a minor head below a major head, and either the whole or a portion of it is recoverable by debit to another minor head under the same or a different major head, the amount recovered is to be recorded under a distinct sub-head "Deduct amount Transferred to .;.....(name of minor/major head) code will be given from '910' to '980' for this purpose.

3.6. The minor head "Suspense" (code 799) may be opened wherever necessary, only under those major heads, where expenditure on 'works' is involved, and where the public works system of account is adopted keeping in view the provisions of para 13.1.1. of the C.P.W.A. code or similar provisions of States Works Accounts Codes/Manuals. This minor head will have the following sub-heads, viz (a) Stock (b) Miscellaneous works Advances and (c) Work Shop Suspense.

3.7. In respect of the departments, the accounts of which follow the public works system of Accounts, the minor head "Machinery and Equipment" (code '052') wherever provided will record expenditure on common Tools and plant acquired by the Divisions for executing works of a revenue or capital nature, and will have suitable sub-heads like "New Supplies", "Repairs and Carriage" etc.

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3.8. "Tribal Area Sub-Plan" (code '796') may be opened as a minor head below the functional major/sub-major heads wherever necessary.

3.9. In addition to minor heads codified below the major heads "3601. Grants-in-Aid to State Governments" and "3602- Grants in-Aid to Union Territory Governments", new minor head(s) may be opened corresponding to the programme minor heads in the Section "Expenditure Heads (Revenue Account)" to which the assistances can be related. For this purpose, the nomenclature of the minor head may indicate the function as per sub-major head or as per major head, in the absence of a sub-major head, on the revenue expenditure side followed by the programme minor head. For "Consumer Industries - Textiles" etc. When the nomenclature of the sub-major head does not give an indication of the concerned function the nomenclature of the minor head will also indicate the name of the major head also within brackets after the sub-major head. For example " General (Medical & Public Health) Health Statistics and Evaluation" , "General (Nutrition) - Dist Surveys and Nutrition Planning" etc,. Where it is not possible to identify the assistance with any programme distinctly, the minor head will indicate the relevant sub-major/major head as above followed by the words "Other Grants". (e.g) "General (Education) - Other /Grants, "Crop Husbandry - Other Grants" , etc. When the nomenclature of a new minor head to be opened cannot be fitted in any of the above pattern, advice of the C.G.A. should be sought. Please refer also to direction 6.5. for illustrations.

3.10. 'Recoveries of over - payments' whether made in cash or by short drawal from a bill shall be recorded as reduction of expenditure under the concerned service minor/sub-head, irrespective of whether they relate to overpayments pertaining to current year to any previous year. Refund of unspent balances of grant/contribution that are initially charged to the major head "3605- Technical and Economic cooperation with other countries' shall be adjusted under a distinct minor head "Deduct - Recoveries of over - payments/unspent balance " (code '905') below that major head. Regarding refund in cash of unutilized balance of grants - in- aid to State/U.T. Governments, see Note (1) below the major head "3601 - Grants - in- Aid to State Governments".

4.0. Expenditure Heads (Capital Account)

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4.1. The following minor heads even where not specifically prescribed may be opened below the major/sub-major head wherever necessary.

(a) "Direction and Administration" (code '001')

(b) "Other Expenditure" (code "001")

Note :-See note below 3.1.

4.2. Investment in each public sector or other undertaking in equity shares etc should be recorded under a distinct sub-head below the appropriate programme minor head pertaining to the development of the function to which the public sector or other undertaking is closely related. These sub-heads should be under the specific minor head "Investment in public sector and other undertakings" (code '190') provided for under the various Major/Sub-major Head in the capital Section. Investment in the form of debentures should however, be recorded under the relevant major head in section 'F' "Loans and Advances."

4.3. "Deduct Receipts and Recoveries on Capital Account" (code '901') may be opened wherever necessary, as a sub-head below the relevant minor heads under the various capital major/sub-major heads. Where such receipts and recoveries on capital account are not identifiable with any programme minor head, the same may be adjusted in accounts as sub-head under "Other Expenditure", (code "800") under the major/sub-major head. As an exception, recoveries (sale proceeds etc.) relating to schemes of Govt. trading where expenditure on bulk purchase and distribution of certain commodities is required to be shown in capital section of accounts, may be shown under a distinct minor head "Deduct -Receipts and Recoveries on capita account" to be opened below the concerned major head.

4.4. The provisions in the directions 3.4, 3.6, and 3.8 apply to 'Expenditure Heads(Capital Account)" also. Please refer to direction 6.4. for illustrations.

4.5. Expenditure of a capital nature which is met from Reserve Funds/Deposits. Account concerned may be opened under the omnibus minor head "Transfers to/from Reserve Funds/Deposit Accounts, "for recording the recovery of expenditure financed from the Fund/Deposit Account.

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5.0. Departmentally run commercial Undertakings and State Trading Schemes

5.1. For departmentally run commercial undertakings and state trading schemes declared as commercial, a distinct minor head (code '201' to '300') for each or a group of similar such undertakings or scheme as may be found convenient may be opened under the appropriate functional receipt/revenue expenditure (working expenses) Capital expenditure respectively. Revenue receipts from departmental Commercial Undertakings and State Trading Schemes declared Commercial may be recorded under suitable sub-head as "Receipts from sale", 'Other Receipts' , ' Other Receipts' under the minor head concerned. Working expenses or revenue expenditure may be recorded under suitable sub-heads such as "Management" "Operation and Maintenance", "Renewals & Replacements", "Machinery and Equipments" , "Other Expenditure", "Interest on Capital", "Suspense". "Contributions to funds" with suitable heads there under.

5.2. For State Schemes not declared as commercial, distinct sub-head for each or a group of similar such schemes as may be found convenient, may be opened under relevant programme minor head below the appropriate revenue functional receipt/expenditure major/sub-major heads. If, however, it is decided to meet the expenditure on such trading scheme from capital, distinct sub-heads for each or a group of similar such schemes may be opened under the relevant minor head below the functional Capital major/sub-major head. The receipts from such schemes will, however, be treated as reduction of capital Expenditure under the relevant sub-heads. Where, however, it is not possible to identity the sub-heads, these receipts may be adjusted under a minor head with the nomenclature "Deduct Receipts & Recoveries on Capital Account" (code '901').

5.3. In the case State Trading Schemes with revolving funds from an advance to be credited to a personal ledger account within the major head the additional sub-heads/detail heads (as the case may be) "Advances" and "Suspense" (Personal Deposits) may be opened.

6.0. Loans and Advances

6.1. The sub-heads to be opened under the programme minor heads should indicate not only the schemes for which the Loans are

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granted but also the class of institutions/organizations to which the loans are given, viz, (1) Municipalities, Municipal Corporations, (ii) Panchayati Raj Institutions, (iii) Public sector and other undertakings, (iv) Cultivators, (v) Port trusts and (vi) Other parties. These classes of Institutions/Organizations etc will appear as detailed heads.

6.2. The minor head "Other Loans" (code '800') wherever not specifically prescribed) may be opened below the major/sub-major heads in the sector "F-Loans & Advances wherever necessary.

6.3. The directions contained in para 3.6. and 3.8. apply mutatis mutandis to functional major/sub major heads in the sector "F-Loans and Advances", wherever necessary.

6.4. Expenditure of a loan nature which is met from Reserve Funds/Deposit accounts will be reflected under the relevant programme minor heads. Suitable deduct sub-head for the Fund deposit account concerned may be opened under the omnibus minor head "Transfer to /From Reserve Funds/Deposit account (code 797) for recording recovery of expenditure financed from the Fund/Deposit Accounts.

6.5. In addition to minor heads codified below the major head "6004 - Loans and Advances to state Governments" and 7602 - Loans and Advance to Union Territories' Governments, new minor head(s) may be opened under there corresponding to the programme in the section Expenditure Heads (Revenue Account)", or "Expenditure Heads (Capital Account)" or "F - Loans and Advances" , depending upon the section under which the loan is intended to be utilized by the borrowing Government. For this purpose, the nomenclature of the minor head may indicate the function as per the relevant sub-major head a per major head in the absence of sub-major head(s) in the relevant section, followed by the programme minor head (e.g.).

(i) **Under Section - "Expenditure Heads (revenue Account)".** For exhibiting grant assistance for construction of affiliated colleges, nomenclature of the minor head will be "University and Higher Education - Assistance to non-Government Colleges and Institutes".

(ii) **Under Section - "Expenditure Heads (Capital Account)".** For exhibiting assistance for purposes of investment in State Apex Societies of Handlooms", nomenclature of the minor head will be "Capital Outlay on Village an Small Industries - Handloom Industries".

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(iii) **Under "F - Loans and advances".** For exhibiting loans for construction of hostels of affiliated colleges, nomenclature of the minor head will be "Loans for Education, Sports Art and Culture-General Education-University & Higher Education".

When the nomenclature of the sub major head doest not give an indication of the concerned function, the nomenclature of the minor head shall indicate the major heads also in bracket after the sub-major head (e.g.) "General (Education) - Scholarships". "General - (Urban Development)-Assistance to local bodies /Corporations/ Urban Development Authorities/Town Improvement Boards etc." Where it is not possible to identify the loan with any distinct programme head, the minor head will indicate the relevant sub-major/major head as above, followed by the words "Other Loans" (e.g.) "Special Education - Other Loans, "General (Education) - Other Loans", "Crop Husbandry- Other Loans" etc.

7.0. Public Account

7.1. Except in respect of certain cases, where "Reserve Funds" have been specifically provided for as distinct minor heads in the major heads falling in the sector "J. Reserve Funds", normally 'Reserve Funds' should be opened as sub-heads under the various minor heads below the major heads in this Sector, whenever 'Reserve Funds' are required to be opened as sub-heads, necessary approval the Controller General of Accounts should be obtained, who will consult of the comptroller & Auditor General of India for the purpose. However, in some exceptional cases like "Depreciation/ Renewal Reserve Funds of Government commercial Undertakings" etc. where creation of a Reserve fund is obligatory under statutes or rules, the heads may be opened as sub-heads, without prior approval from the C.A.G., but the fact of opening such heads should be brought to the notice of the Controller General of Accounts, Budget Division of the Ministry of Finance for information. Whenever such Reserve Funds or parts thereof are invested, the investment account will appear as a distinct subhead, below the sub-head relating to the Fund.

8.0. Coding Pattern

Major Head

A four digit code has been allotted to the Major Head, the first digit indicating whether the Major head is a receipt Head or Revenue Expenditure Head, or Capital Expenditure or Loan Head. If the first

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digit is '0' or '1' the Head of Account will represent Revenue Receipt, '2' or '3' will represent Revenue Expenditure '4' or '5' - Capital Expenditure, '6' or '7' Loan head, (4000 for capital receipt) and '8' will be represent Contingency Fund and Public Account. Adding 2 to the first digit of the Revenue Receipt will give the number allotted to corresponding Revenue Expenditure Head, adding another 2 - the loan head of Account, for Example: 0401. represents the receipt head for crop husbandry. 2401.the revenue expenditure head for crop husbandry. 4401. capital outlay on crop husbandry. 6401. loans for crop husbandry. Such a pattern is however not relevant for those departments which are not operating capital/loan heads of accounts, e.g., Department of Supply. In a few cases, however, where Receipt/Expenditure is not heavy, certain Major heads have been combined under a single number, the Major Heads themselves forming sub-Major Heads under the number.

Sub major Head

A two digit code has been allotted, the code starting from '01' under each Major head. Where no sub major head exists it is allotted a code '00'. Nomenclature 'General' has been allotted code '80' so that even after further sub-major heads are introduced the code for 'General' will continue to remain the last one.

Minor Heads

These have been allotted a three digit code, the codes starting from '001' under each sub-major/major head (Where there is no Sub Major Head). Codes from '001' to '100' and few codes '750' to '900' have been reserved for certain standard Minor Heads. For example, Code '001' always represents Direction and Administration. Non Standard Minor Heads have been allotted Codes from '101' in the Revenue Expenditure series and '201' in the Capital and Loans series, where the description under capital/loan is the same as in the Revenue Expenditure Section, the code number for the Minor Head is the same as the one allotted in the Revenue Expenditure Section. Code numbers from '900' are always reserved for Deduct Receipts or Deduct Expenditure Heads. The Code fore other Expenditure is '800' while the codes for other grants/other schemes etc. where minor head 'Other Expenditure' also exists is kept as '600'. This has been done to ensure that the order in which the Minor Heads are codified is not disturbed when new Minor Heads are introduced. The Coding pattern for Minor Heads has been designed in such a way that in respect of certain Minor Heads having a common nomenclature under various Major/Sub-major Heads, as far as possible, the same three digit code is adopted, a

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few illustrate cases are given below. Computer Cell of the C.G.A.'s organization should be consulted before any new code is allotted or existing code (at whatever level) is altered.

Standard - 3- digit code	Common nomenclature
001	Direction & Administration
003	Training
004	Research/Research Development
005	Investigation
050	Land
051	Construction
052	Machinery & Equipment
150	Assistance to I.C.A.R.
190	Assistance to public sector and other undertakings
501	Services and service fees
791	Loss by exchange/gain by exchange
792	Irrecoverable loans written off
793	Special central assistance scheduled castes component plan
794	Special central assistance for Tribal sub plan
796	Tribal area sub plan
797	Transfer to/From reserve funds and deposits accounts
798	International cooperation
799	Suspense
800	Other . Receipts/other deposits/ other loans/and their expenses

Sub Head and Below

At the centre, the Sub Head represents schemes, the detailed head - sub-schemes and the object Head, the objects (e.g. Pay, DA, HRA, Rewards, Gratuity, etc.) on which the expenditure is incurred. Each of these level has been allotted a two digit code. Where it is not feasible to break up the objects of expenditure into such details, the codes provided for aggregates of certain items may be used instead for computer processing. For example, where it is not possible to indicate Pay, DA,HRA, CCA etc. separately, the code for salaries may be used for representing the aggregate of these items.

Appendix- 02

(Ref. Para 3.14.3)

General pattern of classification in Plan and Budget/Account (J&K Experience)

Plan Classification as adopted by the Planning and Development	Budget & Account classification by the based state on List of Major and

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Department J&K.

I- Agriculture and Allied Service

1. Research and Education
2. Crop husbandry
3. Marketing and Quality Control
4. Cooperation
5. Storage & Warehouse
6. Soil and Water conservation
7. Command Area Development
8. Animal Husbandry, Sheep and Wool Board
9. Diary Development
10. Fisheries
11. Forest
12. Agriculture Credit Investment

II- Rural Development

1. Integrated rural Development
2. Employment Assurance Scheme
3. Draught prone area Development
4. Integrated rural Energy Development Programmes
5. Community Development

III- Special Area Programmes

1. Ladakh
2. Kargil

IV Irrigation and Flood Control

V- Power

VI- Industry and Mining

1. SIDCO
2. J&K Minerals
3. Assistance to public sector Undertakings
4. State Financial Corporation
5. J&K Bank
6. Industries DIC
7. Handicrafts
8. Handloom
9. Sericulture
10. KVIB
11. SICOP
12. Other Schemes

Minor Heads as published by the CAG of India.

A GENERAL SERVICES

- Stationary and Printing
- Public Works (NFB)
- Other Administration Service-Fire Protection and Control.
- Other Administration Services - Trainings and IMPA

B SOCIAL SERVICES

Education, Sports, Arts & Culture

- General Education
- Technical Education
- Sports and Youth Welfare
- Arts and Culture

Health and Family Welfare

- Medical and Public health
- Family Welfare
- Water Supply, Sanitation,
- Housing
- Urban Development

Information and Broadcasting

- Information and Publicity

Welfare of Schedule Casts, Schedule Tribes and other OBC. Labour and Labour Welfare.

- Labour and Employment

Social Welfare & Nutrition.

- Social Security & Welfare
- Nutrition

C- ECONOMIC SERVICES

Agriculture and Allied Services

- Crop Husbandry
- Soil and Water Conservation
- Animal Husbandry
- Diary Development
- Fisheries
- Forestry and Wild Life Forestry

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13. Weights & Measures

VII- Transport and Communications

1. Roads and Bridges
2. Water Transport

VIII- Science Technology & Environment

1. Scientific Research including Science and Technology
2. Ecology and Environment
3. Civil Aviation

IX- General Economic Services

1. Sect. Economic Services
2. TDC/SKICC.
3. Parks and Gardens
4. IMPA

X- Education, Art & Culture

1. Elementary, Secondary and Higher Education
2. Sports, Arts and Culture and Technical Education

XI- Medical

XII- Water Supply Housing and Urban Development.

a. Water Supply
b. Housing
c. Police Housing
d. Fire Service
e. Jails
f. Urban Development

XIII- Information and Publicity

XIV- Welfare of Schedule Casts Schedule Tribes and OBC.

XV- Social Welfare and Nutrition

a. Social Welfare
b. Nutrition

XVI- Labour, Craftsman Training and Employment

a. Labour
b. Employment

XVII – General Services

a) Stationery & Printing
b) Public works (NFB)

– Environmental Forestry and Wild Life (including Parks & Gardens)
– Food Storage and Ware housing
– Agriculture, Research & Education (including Diary Development)
– Co-operation
– Other Agricultural Programmes (Marketing & Quality Control)
– Agricultural Financial Institutions

Rural Development

– Special Programme for Rural Development
– Integrated Rural Development Programme
– Draught prone area Development
– Integrated Rural Energy Development Programme
– Rural Employment
– Other Rural Development Programme
– Community Development Special Area Programmes
– Other Special area programmes
- Development of Ladakh
- Development of Kargil
– Major & Medium Irrigation
– Major Irrigation
– Command Area Development
– Flood Control

Energy

– Power

Industry and Minerals

– Village and Small Industries
– Industrial Estates (SIDCO)
– Small Scale Industries
– Handloom industries
– Handicraft Industries
– KVIB
– Sericulture Industries
– Non-ferrous mining and Metallurgical Industries
– Regulation and Development of mines

Transport

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– Roads and Bridges

– Road Transport
– Inland Water Transport
– Civil Aviation

Science Technology and Environment

– Ecology and Environment

General Economic Services

– Secretariat-Economic Services
– Tourism
– General Finance and Trading Institutions
– General Finance Institution (SFC/JKB)
- Other General Economic Services
- Regulations of Weights & Measures

Appendix-03

(Ref. Para3.14.5)

Accounts/Budgetary classification prescribed by the CAG for plan programmes as applicable to the state of J&K specific illustration for Agriculture and Allied Services.

I –**REVENUE ACCOUNT**
C –Economic Services
--Agriculture and Allied Services
2401 – Crop Husbandry
001 – Direction and Administration
103 – Seeds
_High yielding seed development variety programme.
105 –Manures and Fertilizers
_Subsidy in distribution of fertilizers
_Soil testing for application of fertilizers
_Soil conditioning for application of fertilizers
_Urban composting and development of local manual resources.
107 –Plant Protection
_Plant Protection services
_Mobile Soil testing laboratory
108 –Commercial Crops
_Saffron Development
_Zeera Development
_Mushroom Development

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_Double multiple cropping
_Package in Rice, Wheat and Maize cultivation
_Development of Pulses
109 –Extensions and Farmers Training
_Establishment of Farmers training centres
_Farm Radio Services
_Improved Agricultural Practices
_Crop Competitions
_Agriculture Extension and Trainings
_Nutrition Agriculture Extension Programme
_Agriculture Extension Programme.
110 –Crop Insurance
111 –Agriculture Economics and Statistics
_Statistical cell in Agriculture
_Planning cell in Agriculture
112 –Development of Pulses
113 –Agriculture Engineering
_Improved Agricultural Implements
114 –Development of oil seeds
_All India Project on oil seeds
115 –Scheme for Small/Marginal framers and Agricultural Labour
_Massive Programme of assistance to Small and Marginal farmers
_Small farmers developments Agency.
119 –Horticulture and Vegetable Crops
_Vegetable Development scheme
_Applied Nutrition programme
_Apiculture Development
_Hopes Development
_Potato Development
195 –Assistance to farming cooperatives
800 –Other Expenditures
2408 –Food, Storage and Ware housing
01 –Food
02 –Storage and Ware housing
2415 –Agriculture, Research and Education
01 –Crop Husbandry
001 –Direction and Administration
004 –Research
_Agriculture Research in Kashmir
_Agriculture Research in Jammu
_Agriculture Research Institute
_Vigaan Kendra
_Rice Research
_All India Coordinated Research scheme for Sugar beats

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_All India Rice Research Project
_Agronomic Research Project for improvement of
_Agriculture under rain fed conditions
_All India Coordinated Wheat improvement Project
_All India Coordinated Maize breeding
_Soil Survey in J&K
_Research in Conservation in DPAP
_Scientific Demonstration
_All India Coordinated pulses unification project.
120 –Assistance to Other Institutions
_Assistance to the Agriculture University - General
_Assistance to the Agriculture University for Specialized Trainings/ Visits
_ Assistance to the Agriculture University for Dry land Research project
150 –Assistance to ICAR
_State contribution for ICAR Scheme
277 –Education
_ Agriculture Colleges
_ Trainings to Officials and Non-Officials
2435 –Other Agricultural Programmes
_ **Marketing and Quality Contras**
_ Seeds Certification Scheme including Law enforcement
2501 –Special Programmes for Rural Development
01 –Integrated Rural Development Programme
02 –Draught prone Area Development Programme
2506 –Land Reforms
012 –Statistics and Evaluation (Statistical cell in FC's office)
2515 –Other Rural Development Programmes
103 –Dry Land Development Programme
II –Capital Account
4401 –Capital outlay on Crop husbandry
101 –Forming Cooperatives
102 –Food Grains Crops
103 –Seeds
104 –Agriculture Farms
105 –Manures and Fertilizers
107 –Plant protection
108 –Commercial crops
112 –Development of pulses
113 –Agriculture Engineering
114 –Development of Oil seeds
119 –Horticulture and Vegetable crops
190 –Investment in Public sector and other Undertakings

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800 –Other Expenditure
4408 –Capital Outlay on Food storage and Ware housing
01 –Food
101 –Procurement and Supply
103 –Food Processing
190 –Investment in Public Sector and Other Undertakings
800 –Other Expenditure
02 -Storage and Ware Housing
101 -Rural godown programmes
190 -Investment in Public Sector and other undertakings
800 -Other expenditures
4415 –Capital outlay on Agriculture Research and Education
01 –Crop Husbandry
004 –Research
277 –Education
800 –Other Expenditure
4435 -Capital outlay on other Agricultural Programmes
101 -Marketing facilities
102 -Grading and quality control facilities
190 -Investment in Public Sector and other undertakings
800 -Other expenditure
4515 –Capital Outlay on other rural development programmes
101 –Panchayti Raj
102 –Community Development
103 –Rural Development
800 –Other Expenditure
III –LOANS AND ADVANCES
6401 –Loans for Crop husbandry
(Same Programme heads as 4401)
6408 –Loans for food Storage and Ware housing
(Same Programme heads as under 4408)
6414 –Loans to Agriculture Financial Institutions
190 –Loans to Public Sector and other undertakings
800 –Other loans
6435 –Loans for other Agriculture programmes
(Same Programme heads as under 4435)
6501 –Loans for Special Programmes for Rural development
(Same Programme heads as under 4501)
6505 –Loans for Rural Employment
200 –Other Programmes
201 –National Programmes
6506 –Loans for Land Reforms
104 –Loans to the allottees of Surplus lands
800 –Other loans

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6515 –Loans for other Rural development programmes

(Same programme heads as under 4515)

Note: -Construction and Loan activities have to be related to specific Programme heads and not Provided as LS outlays as at Present.

Appendix- 04

(Ref. Para 3.14.7)

Standardized list of objects of Expenditure

Object Head

1.0. Salary 01. Basic Pay 02. Special Pay 03. Dearness Allowance 04. Compensatory Allowance 05. House rent Allowance 06. Capital Allowance 07. Conveyance Allowance 08. Washing allowance 09. Personal Pay 10. Fixed Medical Allowance 11. Leave Travel Allowance 12. Interim Relief 13. Cash Allowance 14. Festival Advance 15. Overstay Allowance 16. Winter Allowance 17. Kit Maintenance Allowance 18. Medical Reimbursement 19. Sumptuary Allowance 20. Rural Health Allowance 21. Project Allowance 22. Basta Allowance 23. Cash in lieu 24. Charge Allowance 25. Officiating Pay 26. Other Allowance Wages 3.0 Travel Expenses 4.0.Telephone 5.0 Office Expenses 6.0 Motor Vehicle 01. POL 02. Maintenance 03. Purchase 7.0. Rent, Rates & Taxes 01. Rent of Hotels for Security Pe 02. Lease Charges 03. Boarding & Lodging 8.0 Publications 9.0 Advertising & Publicity 10.0 Hospitality & Entertainment Ex 11.0. Electric Charges 01. Electricity 02. Power Charges 03. Import of power 04. Fuel for gas Turbine 12.0. Professional & Special Service 13.0. Furniture & Fixture 14.0. Uniforms 15.0. Maintenance 16.0. Machinery & Equipment 17.0. Material and Supply 18.0. Scholarship, Stipends & Concessions 19.0. Grants - in –Aid 20.0. Books & Periodicals 21.0. Purchase of office equipment 01. Typewrites 02. Computers 03. Duplicate Machine 04. Photostat Machine 05. Copy Prints 06. Fax 22.0. Depreciation 23.0. Old age pension 24.0. Pension and Gratuity 25.0. Natural calamity relief fund 26.0. Resin 27.0. Fire wood 28.0. Air lift charges 29.0. Expenditure on migrants 01. Cash Assurance 02. Food grains 03. Const of – ORT 04. Municipal Facilities 05. Sanitation 06. Health Care 07. Maintenance 08. Repair 09. Establishment cost 10. cost of fans 11. Other expenses 30.0. Modernization of Police 31.0. Impacted Equipment 32.0. Secret Service Expenditure 33.0. Diet Charges 34.0. Drugs 35.0. Subsides on Transport 36.0. Works 01. Minor work 02. Major work 37.0. Cost of Stationery 38.0. Tanker Service 39.0.Work 40.0. Incentive/Honorarium 41.0. Arms & Ammunition 42.0. Medical Aid 43.0. Wireless Equipment 44.0.Payments out of Discretionary Grants 45.0. Subsidies on Welfare of Employees 46.0. Examination Charges 47.0. Interest 01. Interest Payment 02. Interest by corresponding recovery 48.0. Medical Spares 49.0. Financial Aid to Handicapped 50.0. Contributions 51.0. Sowing & Planting 52.0. Timber Extraction 53.0.Cost of Stamps 54.0.Election Charges 55.0. Rewards 56.0.

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Employees Insurance Scheme 57.0. Clothing & Bedding 58.0. Carriage of Constabulary 59.0. Amar Nath Yatra 60.0. Renumiration to Lambadars 61.0. Exgratia relief 62.0. Remittance charges 63.0. Deposit linked Insurance 64.0.Printing Charges 65.0. Helicopter Charges 66.0. Contingency Fund 67.0. Dividends 68.0. Refunds 69.0. Write off loses 70.0. Lands 71.0. Compensations 72.0. Stores 73.0. Advances 74.0. Loans 75.0. Inter Account Transfer 76.0. Subsidies to S.E.B. 77.0. Subsidies on Agricultural/Horticulture 78.0. Subsidy on soil conversation 79.0. Subsidy on procurement & distribution 80.0. Subsidy on development on live stocks 81.0. Subsidy on development of fish 82.0. Subsidy on Industrial units 83.0. Subsidy on Interests 84.0. Subsidy on others 85.0. Suspense 86.0. Lump sum provision 87.0. Deduct recoveries Deduct Recoveries (Suspense's).

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Chapter 4

FORMULATION OF BUDGET

4.1.0 Concept

4.1.1 Formulation of a budget provides an opportunity to respond to the needs and demands from within and outside the government. The process has to have a wider base, generally aimed at: -

- laying down conceptual foundations for creating inbuilt mechanism to review the existing systems and response to the already adopted policies for moving on the designed path of development.
- Evolving and providing of information, both in respect of accounts and forecasts in a manner so that their value is enhanced to help in appreciation of goals set and how these are reached,
- facilitating choice between the options and judgment on the effectiveness of the available alternative(s)
- reducing imbalances in economic development at the local, state and national levels.
- facilitating application of data as available in a budget for decision making and evaluation from time to time,
- Linking of inputs and outputs to identify reasons for cost.

4.1.2 Methodology to be adopted for budget formulation is thus an important path, which has to be smooth and reliable so as to reach the destinations with out any insurmountable difficulty in accordance with the pre-conceived designs and objects. A lot of literature is available describing procedures for budget formulation, both long term and short term. However, in essence all the methods have the same goal of perceiving a forecast, which could give an acceptable input-output ratio. The concepts of budget formulation generally advocated, include: -

- incremental budgeting
- zero base budgeting
- performance budgeting
- programme budgeting

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4.1.3 It is better to have a general idea of the above mentioned techniques before we proceed to understand detailed procedures followed for budget estimation in the government.

4.2.0 Incremental (conventional) budgeting

4.2.1 There are number of constraints within the decision taking for formulation of a budget. The whole of the obligated expenditure forms a first charge on a budget. Very little can be done to vary such expenditure, which generally speaking, are in the form of governance costs, servicing of debt obligations, defence expenditure and such other expenditures which are considered to be necessary and permitted to be like that under the prevailing policies to maintain a socio-economic equilibrium between different sections of the society and between different areas of the country. Such expenditures assume a particular level and grow every year as a result of inflationary and other trend setting forces in the financial field including contractual obligations. In addition, there are expenditures on works-in-progress to complete a project or a major work having gestation period extending beyond a budget year. Past experience has shown that these and other obligated expenditures (also known as committed expenditures) by and large, constitute fairly large percentage of expenditure budget. In this dispensation the leverage available for taking up of new projects or rephrasing the projects under implementation within the current level of resources is very limited.

4.2.2 Obviously, in case of obligated expenditures forecasting is by and large, regulated by a set of rules and regulations. Such a forecasting is termed as incremental budgeting. It only involves giving a reasonable increase based on relevant factors to the level of expenditure already reached. Other expenditures involving projects or in other words investments have to be estimated with utmost care as such decisions generally forestall future choice in the subsequent budgets.

4.2.3 The investment decisions are taken collectively and not by an implementing agency individually. In the initial year of post independence era such decisions would be taken in the standing finance committee of parliament presided over by the finance minister. This committee would consider and approve inclusion in the budget estimates of new services and individual items of expenditure costing over Rs.5 lakhs. This parliamentary committee was abolished in the year 1952 and replaced by a departmental

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finance committee in the ministry of finance which was subsequently renamed as expenditure finance committee in the year 1956. A public investment board (PIB) has been set up in 1972 to examine such proposals. Expenditure secretary is chairman of PIB. This board examines proposals both in financial and economic terms. In the states, the schedules of new expenditure as also the proposals for new service are generally approved by the cabinet under the chairmanship of the concerned chief minister.

4.2.4. The estimates of revenue receipts of the government can also be termed as current revenues and additional resource mobilization. The current revenues accrue from the existing legislations, rules and regulations made there under as also from the current level of performing various functions by the government and its organizations. Obviously, the current level of revenue/receipts forecasting by the government is incremental only i.e. increase in the volume due to enforcement of laws, rules and regulation already in existence which can be attributed to the increase in the current demand or assessment. On the other hand, additional resource mobilization arises from new measures of taxation or increase in the rates of non-tax revenue of the government. Whereas, making of forecast of current revenue is simple based on the assessments already made besides determining the size of the arrears related to each service which could be conveniently recovered during a budget year, the estimates of additional resource mobilization is a highly thoughtful exercise.

4.2 5 The incremental budget in nutshell takes into consideration previous years actuals and after allowing thereon some reasonable percentage of addition (generally ranging between 5-10%) to cover increase in prices of materials, wages and other objects of expenditure, a reasonable forecasts for on going activities are arrived at. In addition budget provision is also made for new activities. Much thought does not go in forecasting the obligated commitments and the burden of its settling is mainly shared by the decision taking authority at the apex. The scope of fixing priorities, under these circumstances is restricted to the new programmes only as the committed expenditures assume first priority on the available resources. The main defect of this type of budgeting lies in providing of such programmes and expenditures, which do not reflect, better cost benefit effects. In this process, some high priority activities some times get discarded due to lack of resources.

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4.3.0. Zero based budgeting

4.3.1. As the name implies, zero based budgeting aims at giving a fresh look to the financial requirements of various activities under implementation for achieving a desired goal - developmental or administrative. The level of expenditure already reached under various objects of expenditure has no relevance to the forecasting under this system of budgeting. Thus, cost benefit ratio plays an important role in this type of budgeting as it helps in prioritization of various on going and new programmes. The economists have defined zero based budgeting in different way. Generally it is described as: -

"An operating, planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch hence - zero base - and shifts the burden of proof to each manager to justify why he should spent any money at all. This approach requires that, all activities be identified in decision packages, which will be evaluated by systematic analysis and ranked in order of importance".

4.3.2. The budget is thus broken into units called "decision packages" which are prepared by the managers at each level. These packages cover existing or proposed activities of the purpose, cost, measures of performance and benefits of alternative courses of action and consequences of not performing the activity. Then all the packages are arranged in order of priority. After several discussions between departmental heads and chief executive, the rankings are finalized and the packages upto the level of affordability are approved and funded.

4.3.3 Zero base budgeting is an American Concept. The idea was first presented by Peter A. Phyrr in 1970. He has defined this approach of budgeting as under: -

"Zero base budgeting is an operating, planning and budgeting process which requires each manager to justify his or her entire budget request in detail from scratch (hence zero base) and shifts burden of proof to each manager to justify why any money should be spent at all, as well as how the job can be done better. The approach requires that (i) all activities to be identified in decision packages (programmes) that relate inputs (costs) with outputs (benefits), (ii) each one be evaluated by systematic analysis, and (iii) all programmes be ranked in order of performance."

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4.3.4 According to the guidelines issued by the government of India on the subject, the objectives of Zero-based budgeting are: -

- identification and sharpening of objectives
- examination of various alternatives for achieving these objectives
- selecting best alternative through cost benefit and effectiveness analysis.
- prioritization of objectives and programmes,
- switching of resources from programmes of lower priority to those with higher priority
- identification and elimination of the programmes which have outlived their utility.
- to make the public expenditure more cost effective by allocating resources to various programmes.

4.3.5 It will be seen from above that as compared to the prevailing system of incremental budgeting, zero based budgeting does not consider level of expenditure reached in implementing an activity in a programme. On the contrary, forecasting is made abinitio i.e. determining the objectivity of the activity in the present developmental or governance scenario, the reason being that there may be activities although necessary at some point of time which are not relevant now and therefore even need to be discarded. Obviously, this technique of budgeting pre-supposes very strong decision-taking capacity, more so, at the political level which is generally guided by the peoples aspirations and difficulty to displease a vote bank. Zero based budgeting out right discards short-term social gains.

4.3.6 In certain quarters it is argued that there is nothing new in the Zero based budgeting. In this connection Anderson says "The concept is nothing more than logical systematization of historical planning and budgeting technique. It is therefore not a substitute for traditional budgeting approach, rather an improvement over it as its assumptions are critically examined on a regular and systematic basis." Inspite of this view, the ZBB has it own advantages, which are briefly mentioned here under: -

- It ensures thorough examination of every function or activity
- Provides an opportunity for effective and economical use of scare resources.
- Performance of those incharge of implementation of various programmes and activities, can be measured more effectively.

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- The system integrates planning, budgeting and control into a single process providing also an occasion for efficient decision making and thus enabling discarding of low priority programmes.
- ZBB has application in private and government organizations as well as profit making and non-profit making organizations.
- It can be applied in case of cost reduction programmes.
- It ensures participative management, besides improving management information systems.

4.3.7 Not withstanding the above advantages the system has not developed well and has not universal acceptability. It is held that "in practice budgeting from an absolute zero base has proved too costly for the benefits obtained in many cases. Apart from this, the following limitations are also attributed to the system:-

- It can not be adopted for all the activities in an organization. In case of profit making organizations it can be applied for workers welfare schemes only. Similarly, it cannot be applied to research & development (R&D) activities where goals can not be defined.
- It increases paper work and involves more efforts and time.
- There is resistance to any change howsoever urgent and beneficial it may be and thus it does not provide easy cure for all the management ills.
- ZBB does not concern itself with over all effects on the budget and its composition.
- The ranking of programmes and activities become difficult in large organizations and the government.
- Uncomfortable decisions taken as a result of exercises in ZBB system become unacceptable and cause resentments, which particularly take the government into difficult situations. Court interventions are caused particularly when a scheme is discarded involving retrenchments.

4.3.8 A programme or an activity included in a decision package under this system of budgeting contains the following information:-

- Description of a function or an activity
- Goal (s) or objectives of a function or an activity
- Benefits to be derived from the activity
- The consequences of its non-funding and non-performing.
- Estimated cost
- Personnel required for the activity
- Alternative ways of performing the same activity

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- Alternatives suggested for implementation of the activity and the reasons to support the proposed one.

A comparison between incremental budgeting and ZBB may be drawn as indicated in the following table:-

S.No	Incremental budgeting	S.No	Z BB
1	Based on previous actual with some reasonable increase to cover additional costs caused by inflation	1.	Starts from a scratch or zero base in case of both obligated and new expenditure.
2	The forecasts are drawn according to a set pattern	2	The forecasts are broken into packages creating various alternatives
3	Ranking by preference is not done.	3	The programmes are ranked in the order of importance
4	Non-participative	4	Participative
5	A number of pre-defined budget preparation forms are used for drawing of forecasts on various accounts	5	Only two forms that is for decision taking and ranking are used
6	Burden of proof rests with top management	6	Operational management formations are responsible for fore-casting under ZBB
7	It involves decision taking on discretionary basis and in that process sometimes high priority activities get discarded due lack of resources	7	Integrates planning, budget-ing and control into one single process

4.3.9. The concept of ZBB has emerged from USA and has been received well in that country by the industries as also by some state governments. In India it was introduced in all central government departments with effect from the budget year 1987-88. Some state governments had also adopted it in certain areas of their activities. The present ground reality, however is that the system has yet to be given a practical shape in India.

4.4.0. Performance budgeting

4.4.1. Performance budgeting as the name implies is a mechanism to facilitate evaluation of budgeted programmes and activities so that input-output ratios in respect thereof are determined and their reasonability verified. It recognizes the fact that it is no longer

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sufficient to watch accomplishment of budgeted financial targets only. Their economy and efficiency also need a verification, which can be done only by correlating financial and physical performances. The need for introducing performance budgeting was felt in India long lack in the year 1957-58 and its adoption suggested by the Estimates Committee on budgetary reforms. This committee has defined this process of budgeting as under:-

"The performance budget is a budget based on functions, activities and projects which focus attention on accomplishments, the general character and relative importance of the work to be done and the services to be rendered rather than upon the means of accomplishment such as personnel, service, supplies, equipment etc. Under this system, the functions of various governmental units would be split into programmes of activities, sub-programmes and component schemes etc. and estimates would be presented for each".

4.4.2. Obviously introduction of performance budgeting pre-supposes restructuring of the general frame of the budget for which a suitable function oriented system of accounts classification had to be evolved and adopted. This has been done now and budget formulation at the Centre and in the States is functional from1974-75. The new system thus adopted is however only a first step in this direction. Presently we break a function into programmes and activities besides determining financial requirements in terms of objects of expenditure and present it accordingly in the budget. Co-relation of the financial outlays thus drawn with the physical targets is not involved. Thus, it is an incomplete attempt to accomplish the objectives of the performance budgeting.

4.4.3. In order to ensure co-relation between physical and financial aspects through the system of performance budgeting we have to move through different stages as indicated hereunder: -

- Establishment of goals, objectives and policies
- Development of programmes both short and long term
- Allocation of resources
- Evaluation of the budget
- Appraisal and evaluation

4.4.4. The performance budgeting thus integrates planning, budgeting evaluation and control in respect of various programmes undertaken as a part of a function. A budget formulated under this approach is therefore, a complete action plan to be followed during a defined period of time and provides a mechanism to facilitate appraisals and

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evaluation of the programmes to find out return on investment. Under this pattern of budgeting verification of utilization of available appropriations is coupled with determination of level of usefulness of such application of appropriations and thus provides a full picture to the Legislature to appreciate use of public funds for public purpose(s) by the executive.

4.4.5. The performance budgeting, however, has its own limitations. The activities, which are not measurable on the basis of cost benefit analysis, cannot be brought under its ambit. Such activities generally relate to research and development programmes, surveys and investigations, trainings etc. This type of budgeting does not also facilitate 'qualitative' evaluations of the programmes. This system of budgeting pre-supposes existence of a cost accounting system involving fixing of standard costs. So that their eventual relation to the actual costs is facilitated which goes a long way in determination of as to how efficiently various schemes and programmes have been implemented and whether those call for any improvements. Some attempts have been made to introduce this type of budgeting but it has been found that it is not possible to adopt it in every government department and in this manner this is preferred in selected areas of activities only, generally those which are of vital importance.

4.4.6. The approach of policy determination, identification of programmes/ activities to accomplish the policy objectives using the technique of cost benefit analysis, fixing of priority for allocation of resources, fixing of long term and short term targets both physical and financial, evolving modes of evaluation for every programme, as envisaged in performance budgeting can be objectively applied to the long range and annual development plans. This approach of budgeting can also be adopted in public sector companies. Some major private sector enterprises use this technique. Evaluation of co-related physical and financial targets and achievements is more useful as the technique is oriented towards fixation of specific responsibility of the managers involved in implementation of various programmes/activities.

4.5.0. Programme budgeting

4.5.1. Programme budgeting is yet another attempt to over come shortcomings noticed in convential budgeting which confines itself to listing of appropriations classified in accordance with the nature of expenditure during one financial year without considering cost benefit analysis of various available alternatives. Concept of

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programme budgeting was for the first time used in government organizations of USA. It has been subsequently adopted by some public and private non-profit making enterprises also. The fact however, remains that process of this type of budgeting has not been standardized.

4.5.2. In essence, the concept of programme budgeting aims at classification by outputs, which are object oriented, rather than by inputs. It therefore, involves:

- stating the objectives of a programme in clear terms,
- setting of the specific proposed plans of work to accomplish the identified objectives, and
- analyzing the probable costs and benefits of the work plans against those of available alternatives methods,

4.5.3. The system is thus, a means for encouraging careful and explicit analysis of governmental programmes to improve the ability to decide among competing proposals for fund allocation and their eventual evaluation. It is a departure from the practice of conventional budgeting as it co-relates financial and physical aspects and creates an analytical approach for decision taking.

4.5.4. Development of a programme budget has six phases viz, defining of objectives, allocation of funds in five year plans and providing these through annual budgets for implementation of the programmes, description and measurement of activities within a programme, application of ZBB and under taking of cost benefit analysis.

4.5.5. As the expenditures are spread over a period of future years; the present value of cash out flow is calculated and compared, with the present value of cash in flows, from the benefits expected from the programmes. This is done by application of the method of determination of internal rate of return (IRR). The programmes with better positive net present value (NPV) are preferred to be included in this type of budget. The flow of benefits from the programmes to be calculated can be both tangible and intangible.

4.5.6. This budgeting process provides a comprehensive data to facilitate better decision for allocation of resources and getting of greater returns or benefits. Obviously, it is an effective tool for developmental planning. It has, however been noticed that the system has also some defects which mainly arise from complications involved in working out of final proposals besides

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causing excessive centralization as the identification and adoption of best possible alternative is based on cost benefit ratio.

4.6.0. Compilation of the state budget

4.6.1. The responsibility for formulation of the state budget lies on the ministry of finance in case of union government and on the finance department for the state governments. It is the finance minister who presents the budget to the parliament/state legislatures for and on behalf of the executive. Obviously, the finance ministry/department cannot complete this assignment effectively without any outside help from within and outside the government. Every administrative department is therefore, called upon to formulate the proposals in respect of the functions falling within their respective jurisdictions. Similarly, the comptroller & auditor general through the accountants general is also required to render all possible assistance, which mainly includes supply of previous actual and facts related to such of the financial management areas which are looked after by this organization as per requirements of the constitution or as mutually settled between it and the government. Finance minister is equally at liberty to have consultations with the organizations and luminaries connected with public finance and general economics. In this process, therefore, every possible attempt is made to make the budget an effective tool for accomplishment of various objectives, which are carefully identified with respect to the national and local requirements. In the present day scenario of the open market economy, global economic and other considerations become also serious considerations for finalization of a budget. Consideration of international commitments and constraints as also tapping of all the available global resources form necessary components of a state budget.

4.6.2 Budget is prepared and approved by the legislature for one financial year (April to end of March). Drawing of estimates and their inclusion in the budget for getting it approved has, therefore, to be a time bound programme drawn in a manner that it becomes available from the commencement of a financial year. Considering the importance of timely completion of the budget it is highly essential that there is complete coordination between various departments and other agencies involved in this exercise aiming at making the proposed budget document a meaningful reflection of all the envisaged programmes and activities to be accomplished within the defined period of time. The estimation has to be as accurate as possible to be actualized during one year. Not only that, it should

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also reflect full details of the expenditure inputs and expectec income. The budget for a year is an action plan for the executive tc be implemented by its field formation. Any ambiguity in detail of a programme/activities and financial provision made therefore cause delay in implementation and thus hampers accomplishment of the envisaged objectives. All this can be possible with coordinate efforts of the agencies involved in the process of budget formulation

4.6.3. Generally, it has been found that such type of coordination is nc available. The departments responsible for developmental plannin follow a different time frame for completing estimation of th financial requirements for implementation of identified develop mental programmmes. The result is that the estimates in respect c this important component of a public budget are not reflected detail and in a transparent manner. The estimates or outlays a these are called in planning terminology are provided in the sta budget as lump sum provisions and that being so, these are n directly available for operation to the implementing agencies eve after the budget is approved by the legislature. Such provisions ar therefore, subsequently broken into programmes and activiti through the instrument of executive orders. The genesis of t budget law that the executive can incur expenditure out of pub funds only with the approval of the legislature who accord such approval for specific purposes to be accomplished within specifi appropriations is eroded to this extent. Question arises as to how the government is within its rights to create appropriation for purpose or purposes outside the budget as approved by t legislature. Strictly speaking, the executive does not enjoy such legal authority within our political set up. Such action fundamentally violative of legislative control on public finance envisaged in the constitution. The public budget has to be a fin approved action plan to be followed during a budget year and c be modified within the permissible limits through the acts of appropriation which is not also an absolute authority available to executive. There is however, a school of thought which advoca giving of liberty to the executive to appropriate funds made availa in a budget to such of purpose(s) which are considered necess or even are economical consistent with efficiency to achiev desired objective. Allotment of funds for various objects expenditure like salary, travel expenses, materials and supp machinery and equipments, office expanses may be left to exclusive control of the executive at various levels to the ex considered administratively efficient and financially feasible. In c words, it means that the legislature should authorize appropriati

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and watch its application upto the formation of classification only i.e. upto activity level. Itemized control over the expenditure should be discretion of the executive.

4.6.4. Distribution of appropriation among various activities as a part of plan implementation after budget is passed by the legislature, apart from causing a curtailment on the legislative authority has an inherent disadvantage of shrinking the budget execution period as well. Once the allotments are not settled as a part of the budget and are authorized in favour of various operational levels during the course of a financial year the whole implementation programme gets disturbed. It also creates a conflicting situation, making the budget to loose its relevance to the extent of implementation of developmental programmes and causes not only misclassification in the accounts but also prolongs gestation periods which is undoubtedly an unhealthy trend. It can be possible to overcome this situation with very effective coordination between the authorities connected with budget formulation and those involved in planning and implementation of developmental programmes.

4.6.5. Attempts have been made to develop a complete co-relation between plan and non-plan budget estimates. The structural frame of the budget or pattern of accounts classification in force at present with a legal backing is a step in this direction. While recognizing the need for uniformity in the budget structure it also gives flexibility to the executive who are authorized to modify, introduce or delete any sub-minor and detailed heads, which in essence are the activities and basic expenditure inputs respectively under a minor head, which is a programme. The only requirement therefore, is effective implementation of the present scheme of classification which calls for real coordinated effort between planners and the finance managers charged with the responsibility of budget formulation. The argument of the planners and those looking after plan implementation that the budget creates rigidity, which goes against the basic requirement of flexibility in the planning process, is not well founded. Budget implementation period is hardly one year and flexibility beyond a reasonable limit in this limited period can cause more financial problems, which can be detrimental to the execution of developmental programmes. There may be valid reasons for bringing about a change in the envisaged estimates and to that extent modifications may be necessary (which are permissible within the prescribed norms) but making of frequent changes in the thoughtfully developed estimates is not conducive to any type of successful budgetary process.

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4.6.6. Every developmental programme has two components, viz committed and expansion. The details of committed expenditure are by and large, firm and there should be no reason to bring about major modifications in such estimates during a budget period. This yardstick can be equally applied to expansion programmes as well. Providing of estimates covering these components of the budget are worked out thoughtfully. At the micro level therefore rigidity rather than flexibility should be the norm for budget formulation and its implementation more so when the period to be covered in these processes is hardly a year. Flexibility, of course is the requirement for long term or perspective planning and that has been well envisaged and taken care of by adopting the practice of reviewing the five year plan essentially on annual basis and sometimes even through mid term appraisals. Formulation of annual plan within the parameters of a five-year plan brings in sufficient flexibility in estimation of financial aspects of a developmental programme.

4.6.7. Even if we follow decentralized planning process with people's participation there should be no difficulty in adopting the above approach. The estimates can be finalized according to a time schedule, to help their incorporation in the budget at an appropriate time so that appropriations are obtained from the legislature well before commencement of a budget year and these become straight away available to the implementing agencies. Sometimes it happens because of some exigencies the plan size and scheme/programme details remain undecided causing difficulties for their inclusion in the budget. Such a situation should, however arise in respect of new programmes or expansion component of a developmental plan only. Estimates in such cases alone should be provided in the budget in lump sum to be broken into various details at the earliest possible opportunity and legislative approval obtained through revised budget at the appropriate time. In short, the rule has to be that inclusion of lump sum provisions in a budget has to be exceptional and not followed as a rule.

4.6.8. Planning is a continuous process. Inclusion of a developmental programmme in the budget pre-supposes undertaking of number of exercises according to the various technologies adopted for the purpose from time to time, which are designed to meet aspirations of the people as a long and short term economic goals at the state and national levels. In order to meet the local demands, district development boards are constituted which approve the programmes for development of a district or a core area. This approach for identification of the district development schemes also need to be a

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pre-budget exercise so that details of required expenditure input on this account are appropriately incorporated in a budget for getting legislative approval.

4.6.9 The budget calendar in this dispensation needs to be settled and followed strictly mutually by the finance and planning departments. Once the foundation stone for budget formulation is thus laid, there shall be no difficulty in developing it as a good action plan with maximum possible details giving it required transparency and an effective guideline to the implementing agency to achieve the desired objectives within the available time frame.

4.7.0. Estimates of revenue receipts

4.7.1. Revenue accrues to the government from tax and non-tax sources. In case of federal set ups, as in India, receipts also accrue to the federating units by transfer of resources from the central government.

4.7.2. Whatever may be the source, revenue realization has to be regulated either by regulatory orders of the government or laws passed by the legislature and in force for the time being. Thus, every item of revenue has a sanction for collection and the authorities empowered to make such collections are also identified. For example income tax officers for collection of income tax, sales tax officers for collection of sales tax or forest officers for collection of forest royalty and the like. It is revenue-collecting authorities alone who can assess revenue receipt estimates for a year with reasonable degree of accuracy and therefore working out of these estimates should be initiated at this level.

4.7.3. A revenue collection officer is adequately empowered to make recoveries as and when these fall due and it is highly essential that revenue receipts are recovered promptly and not allowed to fall in arrears beyond a reasonable limit. Under normal circumstances more or less thirty percent of the annual current demand falls into arrears. If it crosses this level the situation becomes abnormal calling for detailed analysis of all the relevant facts and figures. Management failures may also be responsible for such a situation to be dealt with for appropriate action. A source of revenue is effective if it does not result in accumulation of arrears beyond a reasonable limit and also if its cost of administration is reasonable.

4.7.4. Revenue receipts broadly fall into following two categories: -

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- Fixed charges
- Fluctuating charges.

Fixed charges are those, which become recoverable at fixed rates from year to year except when these are changed as a result of measures undertaken for additional resource mobilization. Fluctuating charges, on the other hand are related to the volume of operations and change even without bringing about any modification of applicable rates.

4.7.5. The basic records are maintained by the revenue collecting agencies in a manner so that these can at any time ascertain how much is recoverable and from whom. These records obviously form basis for calculation of the estimates to be recommended for adoption in a year's budget. While doing so, due regards has to be given to the following factors: -

01. Estimates have to be calculated on the basis of the existing duties and taxes, rates and fees etc sanctioned by the competent authority and in force for the time being. Care has to be taken to ensure that these estimates are not worked out on the basis of the proposed increases/decreases or any rationalizations in the existing rates as may be considered necessary by the collection officers.
02. The estimates should be based on the consideration as to what is actually expected to be received in cash. Since the budget is prepared on cash basis projecting the estimates on demand without considering how much of this demand can be realized in cash will not be correct and if such an estimation is resorted to, it is likely to create difficulties in budget implementation as a whole.
03. In case of fixed charges, the estimates should be based on actual demand.
04. Total amount of outstanding arrears should be worked out thoughtfully so that a clear picture of dead and recoverable arrears emerges. Dead arrears are those, which have no doubt fallen due for recovery under the existing rules and regulations but cannot be recovered due to one reason or the other. Review of arrears should be constantly done and the cases where recoveries are doubtful should be referred to the controlling officer for write off by the authority competent to do so. It may also be necessary to investigate as to how these arrears have become irrecoverable for application of corrective measures and taking of required administrative action.

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05. Past actuals also provide an important guide for projecting future estimates. Care has however, to be taken that such actuals are not as such taken as a base for future estimation. These actuals should be analyzed and it should be seen as to how far other circumstances responsible for collections in the earlier years are likely to remain similar before future estimates are based on them.

06. Effects of any special factor should not be ignored, special factors play an important role in estimating. These factors among others include natural calamities, which throw an adverse effect on the prospects of revenue realization. The favourable weather conditions yielding bumper crop can raise the hope of better collections during the forecast period. Thus, it is necessary that justification for every item is fully scrutinized before it is included in the forecast.

07. Estimation should be based on expected gross realizations in cash. By gross realization we mean expected realizations without accounting for refunds if any, that may have to be made during a forecast period.

08. Refunds have to be provided for separately under a head of account subordinate to the major head of account relevant to the source of revenue. In certain cases account head refunds is provided under each minor head of a major head depending upon the magnitude of realizations and anticipated refunds. Refunds are caused due to various reasons generally because of acceptance of appeals against the recovery made under the orders of the basic revenue collecting authority. It is necessary that quantum of such refunds becomes known for various administrative purposes and thus provided for separately. There cannot be any hard and fast rule for forecasting such refunds, which are thus provided for on the trend of past actuals.

09. In respect of receipts of the miscellaneous nature, such as sale proceeds of unserviceable, dead stocks, old tools and plants, old stocks of newspapers etc, past actuals are generally a guiding factor for forecasting.

4.7.6. The basic proposals thus drawn by a revenue collecting authority are subjected further examination at the level of the controlling officer and then finally settled at the apex in the finance department after obtaining approval of the state cabinet wherever considered necessary. Where as, a collecting officer has limited jurisdiction in forecasting revenue estimates, controlling officer is responsible for collections falling due to the government through out the state in

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respect of a function, which has been put to its charge. Such an authority has, therefore, an important role in finalizing the revenue budget estimates. In the process of examination of the proposals of the collecting officer, the controlling officer may have to modify these estimates on the basis of the improved and better information available with it about the totality of the circumstances relevant to a function. The proposals have also to be checked at this level with reference to the actuals available at that level. In this way, it is necessary for the controlling officer to satisfy himself about the reasonability of the proposals received before submitting these to the apex level for final adoption. Such an exercise provides the controlling officers with yet another opportunity to review the working of his/her department. It can also be found as to how far it is necessary to revise or rationalize the existing structure of a source of revenue for various reasons. It has to be noted that such revision/ rationalization schemes have not to form part of the routine budget proposals. These schemes with full justification and analysis need to be submitted to the government separately as these form part of additional resource mobilization to be used for developmental purposes. The controlling officer thus provides an important link between policy farming authority and the implementing agency. Development of a revenue budget forecast in this manner revolves as under:-

Revenue Collecting Officer	Controlling Officer	Government	Legislature
➢ Maintenance of demand Registers, Forecasting current demand on existing rates. ➢ Estimating recovery of arrears. ➢ Determination of irrecoverable arrears with reason therefore.	➢ Modifying fore-casts of revenue collecting officers. ➢ Suggesting Rationalization of existing rates. ➢ Recommending new measures. ➢ Talking a view on irrecoverable arrears and recommend its write off etc.	➢ Adoption of forecasts. ➢ Adoption of Rationaliza-tion and new proposals. ➢ Decision on irrecoverable arrears.	➢ Approvals to the rationalization and new proposals wherever required.

4.7.7. Rationalization of the existing sources and identification of new measures to be taken up for additional resource mobilization has to be highly thoughtful exercise because these proposals not only effect the economy of the state but should carry public acceptability

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as far as possible also. The additional resource mobilization proposals forming part of the budget can be both in the tax and non-tax categories of revenue receipts. Any such good measure has the following main characteristics: -

- should be well manageable.
- should have buoyancy i.e. potential for a good sustained growth.
- should involve reasonable administrative costs.
- should have public acceptability
- should reach economic and social goals/commitments at the state and national levels.

4.7.8. In case the new measures fall under tax revenue, these should besides other things also help in reduction in disparities between the standards of living of different sections of population. Increased income accrues as a result of investment made by the government into the economy by way of implementation of developmental plans. If a portion of this additional income is withdrawn through the process of taxation for reinvestment in developmental programmes it has to be viewed as reasonable. Occasion for criticizing such measures should arise only when these are harsh and cause genuine difficulties for the taxpayers. Evolving of tax measures both direct and indirect has to be a highly thoughtful exercise so that these besides meeting all the economic parameters are well absorbed by the public who have to bear their brunt.

4.7.9. Taxation becomes all the more difficult and tricky for the state governments in the country because the sources left to their jurisdiction under the present constitutional dispensation. Where as, the sources available to the central government have more buoyancy, those left to be taped by the states are inelastic and reach saturation soon. Not only that, in the present scenario of open market economy and liberalized trade and commerce it becomes equally necessary that the taxes are not levied in a manner that will hamper facing of competitive conditions by the local manufacturers. It is therefore essential that reasonably good data banks are created by the taxation department so that any new measure is carefully linked to such available facts and figures. Effects of taxation need to be kept under constant review by this department for application of necessary correctives as and when required. Such evaluation study may even be left to be undertaken by the technically competent consultants.

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7.10 It will be seen from Chart 3 .2, tax revenue broadly falls into the following three categories: -

- Taxes on income and expenditure.
- Taxes on property and capital transactions.
- Taxes on commodities and services.

4.7.11. There are some sources of tax revenue which have been kept under the control of the union government. The states have jurisdiction over only such taxes, which have been left to their domain while providing for distribution of the legislative powers as between states and the union in the seventh schedule of the Indian constitution. The details have been discussed in chapter 2.0.0. The taxes, which are not within the legislative powers of the states in the present dispensation, are: -

- duties in respect of succession to the property other than agricultural land,
- estates duty in respect of the property other than agriculture land,
- terminal tax on passengers and goods carried by railway, sea or air,
- taxes on railways fares and freights,
- taxes other than stamp duties on transactions in the stock exchange and future markets,
- taxes on sale and purchase of news papers and on advertisements published therein,
- taxes on income other than agriculture income and also excluding corporation tax ; and
- duties of excise on tobacco and other goods manufactured or produced in India except, alcoholic liquors for human consumption, opium including hemp and other narcotic drugs and narcotics and medicinal and toilet preparation containing alcohol or any other substance mentioned above.

4.7.12 Distribution of the proceeds of these taxes between union and the states and between the states inter-se is based on the recommendations of the finance commission. This exercise also involves budgeting as a result of which it becomes possible to determine share of each state in the sources of revenue. Such type of budgetary exercises are usually done by special teams constituted for the purpose in the finance department who do this job keeping in view the guidelines prescribed for the purpose by the finance commission. Nothing however, debars a state government for making suggestions outside the prescribed guidelines.

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4.7.13. There are some sources of tax revenue, which in essence are within the domain of local bodies but for certain administrative requirements are levied and collected by the state governments. Sometimes such taxes are levied by the local bodies and collected by the state government agencies. Such local body taxes generally take the form of entertainment tax, octroi, non-judicial stamps and urban immovable property tax. Whereas some of these taxes are shared as between state and local self-government, some are to be passed on to these bodies; of course after deduction of collection charges. Such arrangements are, however, regulated according to the mutually accepted terms and conditions. Any way, proceeds from these taxes have to be budgeted for distinctly and similarly accounts in respect of the payments made to the local bodies have also to be maintained separately. The major heads provided for the purpose in the list of major and minor heads of account published by the central government carry specific minor heads, generally captioned "deduct payments to the local bodies." Sometimes, these collections are also passed on to these bodies as grants-in-aid to cover the recovery of taxes and other revenue for and on their behalf or for any other purpose(s).

4.7.14. The state governments now adopt the mechanism of state finance commission to regulate transfer of resources from the state to the local bodies on scientific basis, the same way as is done at the union government level. Another important factor calling for this arrangement is that local bodies generally contribute to the creation of a potential for generation of state resources in which they should therefore have a share. Such organization also undertake local development works to be funded by the state governments under specified and defined conditions.

4.7.15. Non-Tax revenue accrues to the state as a consequence to the undertaking of various administrative and socio-economic functions. These receipts also become due to the government from recovery of loans and advances given by it from time to time, besides, dividends from investments made in government company(s) or while participating in joint venture(s). The non-tax revenues are, accordingly grouped into the following categories: -

- Fiscal services
- Interest receipts, dividends and profits
- Other Non-Tax revenues
  - General services
  - Social Services
  - Economic services

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- Grant-in-aid and contributions.

Individual functional heads of account are provided for under these sub-sections as indicated in chart 3.2.

4.7.17. In the present day dispensation, the government generally operates as a facilitator for the over all socio-economic growth, besides, maintenance of law and order and undertaking various regulatory measures. In view of this, commercial aspects of various functions are left to the public sector. Trend of privatization is emerging very fast. The receipts from the functions left to the state government are not therefore substantial. Nevertheless estimation of whatever receipts accrue from such activities provide a full opportunity to under take review of implementation of the programmes under various functions. Say for example, receipts from pollution control can be indicative of how many industries or other commercial activities have been brought within its purview. Admission fee from the schools can indicate coverage provided to children for imparting of education. Sale of out patient tickets in a hospital can create data for providing of health covers. Working out of such estimates should not therefore be taken as a routine, more so by going from the point of view of their magnitude. Generally, such forecasting is done with reference to the trend of past actuals. A better approach would be to relate these to the targets and their actualization, which can provide a far better opportunity to find out effectiveness of implementation of the programmes where from such receipts accrue to the government.

4.7.18. In certain cases it becomes imperative for the state government because of its commitments to the public, to take up programmes, essentially of economic nature, receipts where from are not commensurate with the expenditure incurred thereon. In other words, such a comparative short fall in the receipts expected from a programme are in form of subsidies like subsidies given on the sale of agricultural inputs or the support price prescribed for purchase of various products due to one reason or the other. The receipts from such programme do not form part of the receipt budget. These programmes are either implemented by the government or by other autonomous agencies generally owned by the government. In case implementation is directly with the government, receipts from these activities are taken as deduct receipts under the relevant functional heads so that net effects of expenditure becomes visible at a glance. This has to be on account of the subsidies only but some times other factors also contribute to such excess expenditures which therefore call for an analysis for application of necessary

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correctives. When these functions are left to be undertaken by autonomous organization, the component of subsidy carefully worked out becomes payable to them.

4.7.19 Receipts from such activities when estimated need to be worked out, apart from other things with reference to the envisaged target of sales/procurements. If such parameters are not enforced cautiously, the effective control over grant of these subsidies may slip and thus cause avoidable burden on the state exchequer.

4.7.20 Sometimes assistance for implementation of various programmes with social orientation is received in kind from various national and global bodies. Sale proceeds of such material obtained by the government in accordance with the terms and conditions attaching to such assistance need to be forecast and provided for in the budget distinctly under the relevant functional head of account.

4.7.21 Although the forecasts of non-tax revenues are generally based on current demand but there are areas where arrears also get accumulated. Such activities, generally include interest receipts, dividends and profits, police supplied to other governments and parties, sale of goods/ manufactured by the prisoners, testing fees, sale of stationary and gazettes, rent of government buildings, contributions towards leave and pensionary benefits, receipts from water supply schemes, recoveries from local bodies, sale of agriculture inputs, sale of timber and other forest produce, receipts from irrigation schemes, receipts from sale of power, rent from industrial estates etc. In all such cases, while handling forecasting of the recoveries it becomes necessary to take into consideration the quantum of arrears recoverable during a budget period. The exercise can also provide an opportunity to analyze reasons for accumulation of arrears for the required administrative action. It may some times happen that the arrears, which are found to be dead, may have to be written off for recorded reasons by the authority competent to do so under rules and regulations prescribed for the purpose. Such sources are major non-tax revenues and forecasting of income there from has to be done objectively. That is, targets have to be created based on existing installed capacities and the level of their utilization on a most scientific basis. The estimation from these sources of revenue has not to be adhoc or exclusively related to the past actuals. In other words, we have to find out potentials and how these can be put to optimum utilization in the interests of the generation of revenue as also for betterment of the masses as a whole. Better tapping of these sources can also

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contribute to bringing about improvements in the general economic health of the state.

4.7.22 Stocks are also created by undertaking some of the activities, for examples, goods produced in jails and as a result of trainings imparted in various industrial and social welfare fields. The stocks are also created in public works departments. Accumulation of such stocks result in blockage of capital, which is hardly desirable. Forecasting of receipts under such relevant functions should therefore, take into consideration reduction in level of stocks and keeping these within permissible limit. Building of unnecessary inventories causes costs, as these have to be maintained involving provision of space, security, accounting etc. Thus such of the stocks, which should not be retained after proper survey, need to be disposed off fetching nil or whatever money is possible.

4.7.23 The most important source of non-tax revenue, which accrues to a state, is on account of grants-in-aid from central government. These grants mainly comprise: -

- non-plan grants,
- grants for state plan schemes,
- grants for central plan schemes,
- grants for centrally sponsored plan schemes,
- grants for special plan schemes, and
- grants for various individual programmes.

In short the central grants are either for non-plan or plan purposes The non-plan grants are given by the centre to the states pursuan to the provisions made in the Indian constitution and rule an regulations made there under. Bulk of these grants are based on th recommendations of the finance commission. Some of these gran come outside these recommendations also like subversion fro central roads fund, grants for relief and rehabilitation of displace persons, grants in lieu of pension contributions and other grants. O the other hand, plan grants are given to the states by the union o the recommendations of the planning commission. The ministri incharge of central plan and centrally sponsored scheme als release grants to the states to cover expenditure on implement of such programmes entrusted to them from time to time

4.7.24 Whereas, statutory grants based on the
finance commission are ear-mark
quantum of plan grants is fi
linking these to long te

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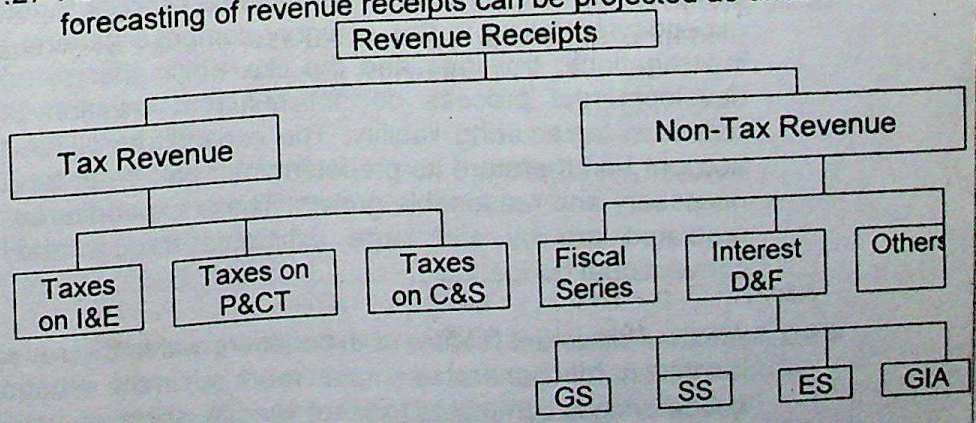
purposes other than these are based on annual demand of the states and requirements of implementation of the programmes of national importance.

4.7.25 Finalization of forecasts and other datas, on which the union government or the respective authorized agencies are compiled at the apex level of the state government who also generate these details with help of various field formation. In order to get the optimum benefit of the said scheme of transfer of resources from union to the states, it becomes necessary to keep ourselves abreast with the: -

- details of various entitlements from the union government.
- details of the central plans and the centrally sponsored plan. schemes, which are available from various ministries of the union government, and
- procedures to be followed for claiming transfer of resources from the union government on various accounts.

4.7.26 These are thus, special type of budgeting processes, which are not covered by general rules and regulations relevant to the subject. The quantum of receipts expected on the basis of the recommendations of the finance commission is determined on the forecasts of receipts and expenditures and other data compiled in accordance with the guidelines of that body and are spread over a period of five years, which are not reviewed during this period. For receipts estimates on account of grants for implementation of developmental plans the exercise is made by preparation of a financial resource statement for plan funding. Such a forecast adopted for five years is reviewed annually. Sometimes midterm appraisals are also made by the planning commission - an authority to deal with the plan formulation and its implementation.

4.7.27 As will be seen from what has been stated in the foregoing paras forecasting of revenue receipts can be projected as under: -



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I & E = Income & Expenditure, P & CT = Property & Capital Trans-action, D & F = Dividends and Profits, GS = General Services, SS = Social Services, ES = Economic services GIA = Grants-in-aid.

4.8.0. Estimates of Expenditure-General

4.8.1. In public finance expenditure is broadly categorized as:

- expenditure within revenue account,
- capital expenditure outside revenue account,
- public debt,
- loans and advance and
- public account

4.8.2. Nature of transactions falling in these groups has already been discussed in previous chapter, procedures for preparation of estimates of expenditure are described here under :-

4.9.0. Expenditure within revenue account

4.9.1. Estimates of expenditure within revenue account are also described as estimates of ordinary expenditure. Generally speaking, these represent committed expenditure i.e. those necessary for governance like running of administration and maintenance of law and order machinery. Maintenance of the level of development already reached as a result of undertaking of various developmental programmes from time to time are also taken as ordinary expenditures. For instance a hospital is set up as a developmental effort, once it is commissioned its operational costs including maintenance of its present capacity have to be met from the ordinary revenue receipts accruing to the public exchequer. These types of expenditures under every function of the government are in the form of committed expenditure and constitute important component of expenditure within revenue account. Another group of expenditures falling in this category comprise general surveys and investigations, trainings and the like which though necessary for developmental process do not result in creation of assets or reduction in recurring liability. The expenditure within the revenue account has therefore its predetermined pattern to be followed with necessary and reasonable growth. These expenditures, being scale regulated are by and large estimated through the process of conventional budgeting.

4.9.2. Another important feature of expenditure within the revenue account is that it hardly generates surplus more so, in the situation where the governance is committed to meet various, social objectives like

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universalization of primary education, providing of basic health and public health amenities and the like. Although such programmes eventually prove productive and contribute, in the long run, to create a vibrant society, socially as also economically, do not bring in immediate returns on investments. That being so, these expenditures are provided for in the revenue account of a budget, which helps in assessing the drain thus caused on the current level of the resources of a state which has to be commensurate with various economic factors.

4.9.3. Now a days a trend is developing to encourage transfer of such functions to non-governmental organizations. This is favoured because of two advantages; first, masses are involved in these operational functions, which generates more public satisfaction, and second, such an arrangement helps in containing expenditures within reasonable levels without any public criticism. Such organizations are given grants for handling various functions, which in addition to the above two advantages also, brings in flexibility in fund utilization decisions.

4.9.4. The fact, at the same time, remains that such an estimation has to be as accurate as possible, meeting requirements of economy in keeping with efficiency. Such expenditure estimation therefore, starts from the grass root level of the administrative set up. This level is in the direct contact with the masses and it can therefore read its plus correctly. The authority who has to implement a programme can alone be a best judge of its financial requirements, particularly when these are need based. For purposes of accountability and putting the estimation made at grass root level in the general frame of the budget it is necessary that the forecasts made at this level are scrutinized at higher levels also. The following levels of administrative set up are involved in expenditure forecasting: -

- Disbursing officer
- Drawing and disbursing officer
- Controlling officer
- Head of the department
- Administrative department
- Finance department.
- Planning department

4.9.5. Drawing and disbursing officers are placed in different areas and make drawals from the respective treasuries for disbursement of expenditure commitments within their jurisdiction. There are more

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than one drawing and disbursing officers working under a controlling officer. The head of the department controls, controlling officers. Administrative departments besides formulation of policies, exercise control over heads of departments. The finance department exercises financial control over administrative departments. The functioning at different levels in this manner are regulated by detailed rules and regulations as also financial delegation thoughtfully evolved and adopted for the purpose.

4.9.6. Flow of data for formulation of budget moves in the same manner. One head of the department looks after one function. Sometimes, however, more than one head of department controls a function and for this purpose jurisdictions are earmarked on geographical considerations. It is also possible that different aspects of the same function are attended to by more than one department. Like, in case of education, operation of educational institutions are under director of education, the works relating thereto in the form of up keep of assets as also their creation is looked after by the public works department and grant of education loans by some other department. All these departments, however, work out the estimates and book the expenditures using the functional accounts classification prescribed for the function. This equally holds good for other functions. There has, therefore, to be close coordination between the different departments performing a function. All of them prepare the estimates of their requirements, which are consolidated in a manner as is prescribed by the finance department.

4.9.7. Every agency connection with forecasting of this type of expenditure has to bear in mind that estimates are drawn as accurately as possible. Over budgeting is full of risks and avoidable excess in an estimate is as much a financial irregularity as excess in expenditure. This is particularly true about the estimates of ordinary expenditure, which are of a standing nature. These expenditure estimates provide an important base for working out ways and means budget, which is drawn to plan regular flow of cash during the budget year, an important exercise because such a flow is not even through out the year because of various constraints. Faulty estimation can even lead to cash crunches and cause difficulties for implementation of programme.

4.9.8. The main elements of the expenditure within the revenue account are: -

- Establishment costs
- Other costs

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The other cost include items like office expenses, travel expenses, maintenance and repairs, tools and plants, materials and supplies, grants-in-aid contributions and the like.

4.10.0 Estimates of establishment costs

4.10.1. Establishment costs comprise salaries payable to the employees and includes allowances also. This expenditure input assumes importance because it constitutes bulk of government expenditure. Emoluments are given to the employees in different forms and according to the standing rules. The object of expenditure salaries includes: -

01	Basic pay	02	Special pay
03	Dearness allowance	04	Compensatory allowance
05	House Rent allowance	06	Capital allowance
07	Conveyance allowance	08	Washing allowance
09	Personal pay	10	Fixed medical allowance
11	Leave travel concession	12	Interim relief
13	Cash allowance	14	Festival advance
15	Overstay allowance	16	Winter allowance
17	Kit maintenance allowance	18	Medical re-imbursement
19	Sumptuary allowance	20	Rural health allowance
21	Project allowance	22	Basta allowance
23	Cash in lieu of leave	24	Charge allowance
25	Officiating pay	26	Other allowance

4.10.2 The salary has not to be mistaken for wages, estimation where under take care of payment to be made to daily rated workers irrespective of the periods for which they are engaged. Wages are not of a standing order and have not to be included in the salaries. Similarly, the head salary also excludes workers engaged in connection with implementation of works and projects. Expenditure on such establishment generally termed as work charged employees form a component of the cost of the individual projects/works and has to be treated as such for budget estimation. Casual workers like *safayee karam charies* who are part time workers in an office have not also to be accounted for under salary. Instead their cost is a charge on the head wages.

4.10.3 The components of salary as mentioned here-in-before are scale regulated and payable monthly or at predefined dates. These do not include travel expenses, which are reimbursed (unless paid in advance under relevant rule and adjusted subsequently) to the employees after they undertake tours under competent orders. Such

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charges are estimated and booked under travel expenses, which is a separate object of expenditure. Conveyance charges paid as part of salary are accounted for under this head.

4.10.4 Details of estimates under salaries are worked out on establishment budget forms, which are designed in a manner so as to bring out details of salary payable. These are worked out systematically, individual by individual. Anticipated increases in the current level of salary by way of increments are also worked out according to the prescribed parameters. These estimates for department are consolidated by the head of the department. The following are the important points, which have to be kept in view while making this exercise:

- Estimates have to be prepared in respect of the staff, which stands sanctioned for the department and on the rates of pay, and allowances, which are approved. No revision in such strength and rates is assumed.
- The estimates should take care of pay etc. likely to be drawn during a budget period.
- In case of vacant posts, the estimates are proposed at the minimum of the scale of pay attached to such posts.
- When an employee is on leave and a substitute is engaged in such temporary vacancy, provision is made for both leave salary payable to the original incumbent as also the emoluments payable to the substitute appointed in his place, keeping in view also the period of the leave sanctioned.
- Since the intention is that the estimates should be as close as possible, provision for an employee working on a higher post but placed in a lower scale of pay is made in the lower scale only. The implication of putting such an employee in the higher grade during the course of a year gets reflected in the revised estimates for the year.
- Salary for the month of March is drawn in April. Therefore, establishment budget estimates are prepared from March to end of February of a financial year.

4.10.5 Compilation of the establishment budget provides an opportunity for reviewing the staff strength sanctioned and in position for implementation of an activity. The head of the department should make this review so that surplus staff if any, is identified. Undertaking of such exercise on annual basis has become all the more necessary in the present day dispensation when establishment costs of the government are increasing fast because of over sizing the administrative set ups as also because of

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substantial increases in salary structures. These costs, if not, properly controlled do not become sustainable. Down sizing of administration is a complicated problem because it generally leads to litigations. Once surplus staff is identified it can help in evolving suitable plans acceptable to the employees for its down sizing by way of retrenchments through golden handshake or by adjustment in position(s) where it can be productive. Such an identification can also make the planners and policy framers conscious of the avoidable expenditure incurred on the surplus staff and will strive for adopting such schemes which could help in shedding this fat even in a phased manner, if necessary.

4.10.6 The staff particularly in respect of schemes/activities, which form part of expenditure within the revenue account, should be need based. The fact also remains that the governance is generally committed to providing of employment particularly to those falling in the category of educated unemployed section of the society. Every attempt should be made to meet such commitments by resorting to the placements in the programmes/ activities, which can absorb such costs. Such approach should be adopted for plan formulations in respect of meeting the need of infrastructural development in different sectors. While doing so, it becomes equally necessary to adjust the already identified surplus person power. Care has to be taken that the developmental plans do not also in this process get over loaded by establishment costs which can have the implication of prolonging gestation periods, not a desirable situation.

4.11.0. Estimates of other fixed costs

4.11.1 Estimates so far as these relate to fixed charges for running an office should be proposed with reference to the average expenditure during the past three years preceding to that in respect of which estimates are formulated. In case of items of expenditure, which are governed by regular sanctions, such as engagement of labour and their rate of wages should be the guide for estimating financial requirements under the object of expenditure wages.

4.11.2. Maintenance and repairs of the existing assets is also an important component of other fixed costs. Assets are created with heavy investments and it will be only prudent to maintain these in a proper form. Generally, it has been observed that the assets are not kept in good condition. Estimates under the object of expenditure maintenance and repairs need, therefore, to be drawn carefully which may interalia, involve surveying the assets and finding out

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their actual maintenance requirements. There is a practice of evolving norms for maintenance of assets, which are approved by the competent authority before adoption. Generally, such norms are fixed as percentage of the capital investment. Such norms no doubt, facilitate taking of decisions with regard to adoption of estimates under this object of expenditure but the system has some inherent deficiencies. Norms may not necessarily meet the actual fund requirement for maintenance. In case of newly created assets maintenance requirements may not be mostly substantial and urgent. Working out estimates in such cases on the basis of the approved percentages of capital cost can cause over budgeting. Similarly, the capital cost in respect of old assets is not such which can provide a suitable base for assumption of maintenance and upkeep estimates. The best approach, therefore, is to evolve the maintenance estimates in two components i.e. actual works need to done for upkeep of an asset based on a properly organized survey, and routine maintenance and upkeep requirement, which can be assumed with reference to the norms evolved on scientific basis. These estimates are worked out by public works department separately in respect of each function. This will have the advantage of earmarking funds for individual functions and watching their utilization with reference to the purpose for which these are granted. The funds made available in this manner should be made known to the respective functional departments to enable them to press of their utilization on maintenance of their assets.

4.11.3 Some of the objects of expenditure under other costs are stock backed like materials and supplies, tools and equipments, clothing and bedding, furniture and fixture, uniforms and the like. Estimates under these heads have to be adopted carefully because the user departments have a tendency to over estimate their requirements. Every such budget estimate should therefore be backed by sufficient data and information. Every proposal for adoption of these estimates should justify the estimated requirement with reference to the stocks already held, details of the assessment for the year, basis taken for judicious assessment, estimated cost of the assessment made indicating the source of the rates adopted for the purpose. Inventory created in the process of these purchases has necessarily to be kept within reasonable limits as otherwise; there will be blockade of capital, a serious financial irregularity calling for the required administrative action. At the same time these requirements should not also be under estimated particularly in case of consumables like drugs provided to the needy through hospitals and dispensaries or class room aids needed by the educational

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institutions. Such under estimates eventually bring disrepute to the governance, which is not a good situation.

4.11.4 Grants-in-aid also constitute an important component under other fixed costs. These are given to non-government organizations (NGOS) to facilitate taking up of such of the activities, which are normally supposed to be performed by the government as a part of their socio-economic commitments. Every department connected with payment of grants prepares and adopt a set of rules to regulate such payments. These departments also maintain list of the organizations who are given such grants. Estimates under this object of expenditure have to be based on entitlements worked out in accordance with the rules and regulations. Generally, this assistance is given to the NGOS as re-imbursement of expenditure already incurred by them. That being so, it becomes necessary to ensure that utilization certificates in respect of the earlier grants are taken into considerations while framing such proposals. Every department reaches a level of disbursement of grants and any estimates crossing this level beyond a reasonable limit have to be supported by full justification. The NGOS receiving grants need also to be inspected by the designated authority under relevant rules. These inspection reports should be taken into consideration while working out estimates under the head grants-in-aid.

4.11.5 Institutional finances are also available to NGOS for funding of their schemes/activities towards accomplishment of their declared objectives. Availing of such funding facilities has to be encouraged in the interests of the overall economic development of a state. Forecasting requirement of funds for grants should, therefore, take into consideration the efforts made by an NGO in channelizing institutional finances into its activities.

4.11.6 In view of this, estimation under grants-in-aids should be based on: -

- rules and regulations governing giving of GIAS.
- utilization of the grants released earlier.
- inspection report of the designated authority under GIA rules.
- efforts made for pumping in institutional finances into its activities by the organization claiming grants.

4.11.7 Interest obligations in respect of debts raised by the government internally and externally from time to time is yet another important charge on expenditure within the revenue account. These estimates

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are worked out by the authority required to maintain accounts of the loans raised. These loans are raised and received by the state finance department who have therefore, to maintain their accounts. Interest liability need to be worked out in respect of every individual loan in accordance with the terms and conditions attached thereto. The estimates have also to be reflected accordingly in the state budget. The quantum of funds to be received or repaid during a budget year are known in respect of the loans like market borrowings, loans from financial institutions, loans from central government and the like. The estimate of interest liability for such loans has to be worked out accurately. In case of certain loans like ways and means advances (overdrafts) the estimates have to be forecast on the basis of the envisaged level of inflow and outflow of such over drafts during a budget year, which varies even on day to day basis depending upon liquidity of the state government at a given point of time. The estimates on this account should among other things also be related to the previous trend.

4.11.8 Generally, management of debt obligations and working out of budget estimates related thereto is taken as an accounting problem. These estimates are not by and large, analyzed at the level of their adoption. Since the debt servicing constitutes a bulk charge on the expenditure, an utmost care has to be taken while working out and adopting its forecasts. Such an exercise provides an opportunity to find out as to what extent the available resources from public debts have been taped and whether their servicing is regular. Like in the case of unfunded debts (GPF/CPF) it can be found as to what extent coverage of such schemes has reached or whether the loans available for central plan and centrally sponsored schemes have been lifted in full. Short falls in available debt raising or their irregular servicing can cause tremendous adversities in the financial management and upset the whole plan, present as well as future.

4.11.9 Subsidies borne by the state for various socio-economic purposes are also important commitments of revenue expenditure. Subsidies may be unavoidable rather necessary in certain cases because with such measures, corrections can be applied in disparities prevailing in standards of living of different sections of the society. These can also help in increasing productivity for the ultimate economic health of the state. Grant of subsidies under any circumstances should no be based on impulsive decisions, just for appeasements or as a surrender to the powerful lobbies by the governance. These have to be purposeful, well defined and properly applied. When we say properly applied, it means that its effects should be well received/felt

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by the concerned i.e. those for whom the subsidies are given. Management of the subsidies should be highly effective so that there are no chances of pilferages.

4.11.10 Subsidies are in respect of programmes/activities managed by the government itself or those, which are handled by the organizations/ agencies outside the government including public sector enterprises fully owned by the government. In the former situation, the subsidies represent net of the trading activities initially provided for in the capital expenditure sections of the budget. For example distribution and sale of agricultural inputs like fertilizers and pesticides and agricultural tools and equipments, food grains to the poorer sections of the society etc. The programmes/ activities-involving grant of subsidy are also undertaken by PSUs and other autonomous organizations. Some of the PSUs whose operations are not financially viable because of one reason or the other or their being placed in a situation where they cannot wind up an activity or have to undertake programmes on the initiative from or under directions given by the government are also subsidized for such activities. In their case the subsidies should be on re-imbursement basis. But under certain circumstances these are paid in advance also. Budgetary support given to the PSUs or even to the local body setups are also types of subsidy.

4.11.11 Where the programmes involving grant of subsidy are implemented by various field formations of the state administrative set up, the forecasts are worked out on the basis of the expenditure estimates for procurement/manufacture of the items to be distributed, organizational set up for such distribution net work and other costs which are then adjusted towards sale proceeds. The gap between the two is the element of the subsidy. Expenditures and the receipts thus, envisaged are initially provided for in the capital expenditure section of the budget and accounts. The gap (subsidy) is then transferred to the revenue account section. In this exercise care has to be taken that all the costs are provided for which also include interest on the investments etc so that no element of the subsidy remains hidden.

4.11.12 As regards subsidy given to the PSUs and other autonomous bodies like local self-governments, universities etc, and every programme for which subsidy is given needs a careful examination. In case of the programmes, which are implemented by this organization for and on behalf of the state subsidizing the expenditure to the extent of 100% of the expenditure, is justified.

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This can hold good for the expenditures committed by them as a result of government policy and directives. Where, however, budgetary support is given as a general policy it should be linked to the factors, which may eventually help these organizations to stand on their own strength. In other words, these subsidies need to be treated as stop gap arrangements available for short period durations only. . Such subsidies should, therefore, be on tapping basis and made subject to the organizations efforts to improve their financial health. Giving of grants to PSUs may take different forms like contribution to the share capital of the organization, their loan capital or in the nature of grants in accordance with a pre-defined policy of the state government. Such a categorization of subsidy depends upon a number of factors. Where it is felt that it can be accommodated within the capital structure it should be taken as such i.e. either as investment in share capital or given as loan capital. It may however, be noted that subsidies which are taken as grants alone have to be provided for in the expenditure within revenue account section of the budget under the appropriate major head of account.

4.12.0. Capital Expenditure

4.12.1. **Estimates of public works**:- Expenditure on public works is broadly on account of works, establishment, tools and implements and suspense transactions. Some expenditure is also necessitated as a result of undertaking of surveys and investigations and designing and planning.

4.12.2 Works, whether original or of maintenance nature will be either works-in-progress or new works. The works-in-progress are continuing works which have been taken up earlier and for which provision of funds in the budget becomes a first priority. New works, on the other hand, are those, which have to be taken up for the first time. These could be in turn, major works or minor works. Major works are those original works cost where of excluding establishment and tools and plant charges exceeds a pre-determined sum as may be fixed by the government from time to time. All other original works are minor works. The following are the basic principals, which have to be observed for proposing estimates relating to the works.

- Works fall within the ultimate jurisdiction and control of the public works department like works relating to construction of roads including bridges, irrigation canals, khuls, water supply schemes, power projects etc. and those which relate to other

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departments such as construction of school buildings, medical buildings, agriculture buildings and other functional buildings. All the works have to be classified under functional heads of account to which these relate. Thus, the works are either those, which are initiated and concluded in the public works departments, or those, which form part of the development of the functions under control of different departments.

- Generally because of their technical competence all the works irrespective of the functions to which these relate are executed by the public works department and form a part of its budget. Exceptionally, however, works are also allowed to be executed by the respective administrative departments under special orders of the government. In such cases the works expenditure estimates form part of the budget of such departments.
- Funds for the works belong to the public works department as mentioned above have to be arranged by that department. On the other hand, funds for the works of other functional departments entrusted to the public works department have to be initially arranged by those departments. Once these form part of public works department it becomes responsibility of that department to arrange and control funds earmarked for such purposes.
- Works excepting those relating to repairs and maintenance and of petty nature within the pre-determined financial ceilings are of development nature from general socio-economic point of view or in certain cases these constitute investmental expenditure designed to yield suitable financial returns. Where as, maintenance and repair works as also petty works are treated as part of non-plan budget, the other works are provided for in the Plan budget. Financial requirement in respect of non-plan works for their execution are provided in the budget as a normal course, after their examination like any other non-plan budget estimates. The work to be provided for in the develop-mental plans, on the other hand, involve examination in depth not only because these works have wider financial implications but also because these provide for infrastructures for sustained economic growth of the state. Techno-economic feasibility in respect of such works has to be worked out meticulously. Once it is established beyond doubt that it is necessary to take up such works/projects these form part of the five year and annual plans of the state and are subjected to scrutiny

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at higher levels of planning process. The government also constitutes project clearance committee(s) for their recommendation to the taking up of these as a part of the state budget.

- The development works projects have their own gestation period. It is highly necessary that these gestation periods are carefully evolved, determined and controlled. It has generally been seen that project construction periods (gestation periods) if not adequately controlled can lead to time and cost over runs leading to the projects becoming unviable though considered to be viable at the stage of their formulation. It then becomes difficult to accommodate these within the pre-fixed plan outlays without affecting other developmental programmes. In case of major project, PERT and CPM provide better guidelines for determination of financial requirements on annual basis.
- Some times, projects are funded by external agencies, which may, for an individual state projects include national level funding arrangements concluded for such purposes, with the central government or any financial institution like HUDCO providing funds for housing projects, PFC for power projects and the like. In such situations it will be necessary to follow the guidelines or the conditions, if any, prescribed by such authorities from time to time and accepted to be followed by the project implementing agency while working out the estimates for a budget period.
- Some works are of strategic and national importance such as construction of national high ways and boarder roads. These works though funded and executed by the central government through their own agencies except to the extent allowed to be taken up by the states as a special arrangement form part of the state budget. The expenditure forecasts for such works should be ascertained from the respective authorities for their incorporation in the budget.
- Certain road works are financed from central road fund and are described as CRF works. Subvention from this fund is earmarked for taking up of road works as approved by the concerned ministry of government of India. Estimates for such works should be incorporated in the budget accordingly.
- The government of India has also constituted a fund captioned "National Highways Permanent Bridges Fund" from out of the proceeds of levy of fees for services rendered relating to the use of permanent bridges on national

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highways. The amount available to the credit of this fund is allocated by the central government for development of national highways in the state, which is over and above the normal plan allocation. The individual works to be funded from this fund have to be approved by the central government according to the proposals made available to them by the state. Estimates in respect of such works should be included in the budget on these basis.

- There are some public works, which have commercial orientation, apart from their being necessary to meet social commitments. Irrigation works help the farmers to increase their agricultural production; power projects provide energy, which has its own value or water supply schemes are designed to provide portable drinking water. Objectively, every such project has to be included in a budget on the basis of their viability studies. In case of some of these projects clearance for their implementation has also to be obtained from national level authorities viz central water commission (CWC) and central electricity authority (CEA). It is therefore, necessary that such approvals also form part of the examination of the expenditure forecasts in these cases.
- While proposing estimates in respect of the works it is necessary to ensure that only so much of the expenditure is provided for as can be reasonably spend during a budget year. It should neither be understated nor overstated. In this context it may be pointed out that where land has to be acquired for undertaking a work, it is necessary to examine if acquisition proceedings can be initiated and completed well in time. Any delay in this process may hamper the progress of work resulting eventually in non-utilization or under utilization of the estimates.
- It is equally necessary that the preliminaries of administrative approval and technical sanction etc. are completed before the provision is made in the budget proposals – the idea again being that there should be a reasonable chance of the proposed budget estimates being reasonable to be purposefully utilized during a year.
- In case of works-in-progress the proposals should be prepared with full justification making these as most realistic particularly keeping in mind the gestation period, the work already done and that likely to be done during the budget period.
- Minor works estimates may not be prepared in respect of individual works as that will be cumbersome and time

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consuming. Moreover, such works are generally stray works necessitated to be implemented due to various reasons, which cannot be accurately foreseen. That being the reason, such estimates are generally based on trend of past actuals (actuals for the last three years) to be modified for the known reasons.

- The estimates for repairs and maintenance should also be prepared with adequate care.

4.12.3 The establishment of the public works department is regular establishment or work charged staff. The work charged establishment is either put into regular scales of pay or retained on daily wages. Expenditure on both the categories of work charged establishment is directly attributable to the works and should therefore be part of the expenditure of works budget estimates. As regards regular establishment, it is supervisory in nature and perform at subdivisional, and other levels of public works department. Expenditures estimates in respect of this establishment are worked out in accordance with the same guidelines as are applicable to the estimates relating to establishment of other departments. Such estimates will, apart from salaries, include other management expenditure requirements also. The same staff also takes care of designing and planning as well. As already mentioned earlier public works department has to implement works relating to different functions undertaken by the government. Ordinarily, the common expenditure in the form of establishment and planning and designing should be provided under relevant functional heads of account but it is very difficult to do so because following such a system will involve a lot of calculations which will make budgeting as also accounting complicated. In view of this, provision for the cost of combined establishment is made initially under one major head of account and then at the close of year transferred to the relevant functional heads on proportionate basis. In order further to reduce such adjustments, the common expenditures are distributed between communication works, administrative and functional buildings and housing construction programmes only.

4.12.4 Account head 'suspense' has been provided for such transactions, which cannot be taken to the final head of account immediately on their occurrence, due to various reasons. Such expenditures are eventually transferred to the relevant account heads when details become known and classification of expenditures settled. Thus, the account head 'suspense' has both "debits" and "credits". It is argued in certain quarters that since suspense is a transitory head of

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account created to facilitate accounting adjustment only it will not be necessary to provide for expenditures booked under this head of account in the budget of the year. The fact however, remains that operating upon a suspense head result in outflow in cash and every expenditure irrespective of its nature has to be covered by the authorization from the legislature, which has therefore, to be obtained. Apart from this, making of provision under prescribed subheads of suspense also enables exercise of control over such expenditures and their adjustments in the accounts, Excess of debits over credits under suspense is indicative of retention of stocks at higher levels, non rendering of accounts against the miscellaneous public works advances drawn by the employees looking after execution of work etc. for application of necessary correctives. It has to be noted that outstanding balances under suspense can be on account of the expenditures/liabilities already created in the process of implementation of works programmes. Once the suspense head remains uncleared it indicates that full debit is not passed to the relevant schemes, which may result in claiming of lesser funds from the central government or any other agencies funding these. This is particularly true about the states whose major works programmes forming part of development plan are funded by the union government. Getting of lesser funds than falling due may even lead to cash crunches. Handling of adoption of forecasts under this head of account should be based on these considerations. Stock levels and normal out standings under other suspense heads is a serious exercise for the public works department. Once these are rationally fixed and followed, expenditure control on execution of works becomes more effective and efficient.

4.12.5 **Other Capital Expenditures:-** Apart from works, the other capital expenditure is in the form of trading activities undertaken by the government under certain specified circumstances like public distribution system for general and specific purposes. General public distribution involves purchase and sale of essential commodities for human consumption. Such activities can arise for other purposes like purchase/manufacture and sale of such commodities which are essential for the effective growth of various sectors of economy like, fertilizers, implements etc. for agricultural development . Other capital expenditure also include investments in public sector enterprises set up for various economic purposes.

4.12.6 Normally, other capital expenditures as described above except investment in PSUS, should be left to be handled by public or

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private sectors outside the government who should intervene only as facilitator of such activities. This approach becomes necessary in view of the opening of the country's economy to the open market forces. Where, however, such capital expenditure has to be booked by the government due to one reason or the other, provision in the budget has to be made for which normal budgeting procedures have to be followed.

4.13.0 Public Debt Estimates:

4.13.1 The internal debts are authorized to be raised and managed by the authorities designated for the purpose by the government from time to time. Accordingly, it becomes necessary for the designated authority to compile budget estimates in respect of internal debts. Management of these debts is vested with the finance department, who are therefore, required to maintain all the relevant records as may be prescribed in consultation with the accountant general as a part of CAG organization.

4.13.2 Every internal debt is backed by an agreement to regulate its management. Such document therefore, form basis of forecasting these budget estimates, which have both inflow and outflow commitments. Inflow estimates may or may not be backed by agreements. Such of the internal debts which are to be raised for the first time in a budget year are provided for on the basis of assumption only. On the other hand, the internal debts which are of perpetual nature like overdrafts obtained from the bank to tied over temporary financial difficulties have to be estimated on the basis of previous trend and such of the known factors which can change the past behaviour. Every public debt estimation both in respect of receipts and also repayments have to be based on the individual dispensations. Generally speaking budget estimates of the account heads falling under public debt have to be drawn keeping in view the following broad parameters:-

1.0 Estimates of inflow

- Description of the public debt
- Source of the debt
- Terms and conditions of the debt
- Estimated receipts for the year.

2.0 Disbursements

- Outstanding if any, at the beginning of the year preceding to that for which budget is prepared
- Additions to the debt during the above year
- Repayment made during the above year

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- Opening balance of the debt in the budget year for which estimates are drawn.
- Repayment of the debt during budget year based on agreements etc.
- Provision of funds proposed for repayments in the said year.

4.13.3 It may sometimes happen that repayments of debts during a year does not become possible due to one reason or other which causes arrears. Every attempt has to be made that such a situation does not arise as debts falling in arrears cause avoidable interest liabilities. Sometimes accumulation of such liabilities give rise to panel interests and handling of such situations becomes difficult. Debt servicing should therefore be a first charge on the resources available with the government. Any mishandling of debt management adversely effects future developmental programmes and even makes management of resources a complicated issue.

4.14.0. Loans and advances:

4.14.1. These are third party loans and advances and are given for general, social, economic and other purposes. Giving of loans and advances are generally part of developmental planning process. Almost every sector of plan development has provision for disbursement of loans as a component of the outlay earmarked for it, for instance grant of education loan is a part of plan outlay under education. Similarly, loans given for construction of houses is debitable to the housing plan

4.14.2 In the present day financial management scenario funds for capital and other investments also become available from financial institutions and commercial banks. It, therefore, becomes necessary that these available resources are also channelised into the economic developmental process. One of the important mechanisms to do so can be by way of giving of margin money loans to the PSUs, local bodies and other autonomous organizations including NGOs to facilitate raising of further institutional finances. There are however, certain sectors where governments direct intervention becomes necessary so as to ensure that the benefit of such loans reaches the needy and their effect is wide spread.

4.14.3 Every loan granted has its own terms and conditions which generally depend upon nature of such loans. Broadly, the loans and

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advances given by the government are categorized as "productive", "semi-productive" and "non-productive". This classification though conventional is adopted to regulate such loans and advances. As otherwise any capital investment has economic connotations, which may be tangible, intangible or both. The government, therefore, formulates its own policy for grant of the third party loans, which are then managed in accordance with the rules, and regulations that may be framed pursuant to such policies in respect of every category of such loans and advances.

4.14.4 Every endeavour has to be made to recover the loans during the prescribed period of recovery inclusive of moratoriums if any provided. It has generally been seen that most of the loans are not recovered at the appropriate time during the stipulated period of recovery. This is particularly true about loans and advances granted by the government. The recovery of their arrears at times and under certain circumstances becomes unmanageable. Formulation of the budget estimates under the category loans and advances provides an opportunity to review loans and advances disbursements and their recovery. Such an opportunity has to be made best use of so that loopholes wherever noticed are plugged. The exercise also helps in finding out as to how the targets fixed earlier have actualized so that defaulters if any, within and outside management are suitably dealt with. Drawing of estimates under loans and advances is therefore a serious exercise to be made by those who are holding their management and maintenance of accounts.

4.14.5 Loans and advances estimates are in respect of both envisaged inflows and outflows. The estimation on both these sides has to be made accurately and the factors relevant to every category of loans and advances play a vital role in this forecasting. The guidelines to be followed generally in this exercise are indicted hereunder: -

- Estimates of recoveries and disbursements need to be drawn separately by the authorities entrusted with the responsibility of managing these loans and advances. At the micro level the estimates need to be framed in respect of each individual loanee which are eventually consolidated by the controlling officers under prescribed heads of account.
- Detailed individual accounts provide an important clue for drawing of these estimates.
- While drawing the estimates it becomes necessary to ascertain the level of outstandings in respect of different categories of loans at the beginning of the year in respect of which budget is prepared. While working out these arrears it

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is equally necessary that these are grouped according to their age. Generally loans outstanding for more than a year are shown separately so that an idea as to how their recovery should be dealt with emerges.

- The controlling officers while consolidating the estimates relating loans and advances should analyze the position of outstanding arrears and fix the targets of recovery in a most realistic manner. Overstating the estimates of recovery in the estimates disturbs the ways and means position of the state causing serious cash management problems.
- While estimating disbursement of loans and advances it will be necessary to keep in mind the funds earmarked for the purpose in the plan outlays under different sectors of a developmental plan.
- There are certain loans and advances like education loans, which are disbursed, to loanees in a phased manner over a period of time. The loans and advances thus given create a commitment which becomes first charge on the budget estimates drawn for such categories of loans and should therefore be dealt with accordingly.

4.14.6 The estimates thus drawn should be accompanied by a review of the loan accounts as also explanatory notes so as to facilitate their understanding and adoption.

4.15.0 Contingency fund:

4.15.1 As already pointed out earlier the fund is in nature of imprest at the disposal of the head of the state. Advances made from and out of this fund have to be recouped to it. Financial requirement for such recoupement has to be adequately provided for in the budget estimates. It may be noted that advances from the fund are made for meeting expenditure on new services not envisaged in the budget of a year or for making payments to satisfy decrees issued by the court on various accounts. Thus, while making estimates for these recoupments all the details are known and such recoupments are carried out at the time of adoption of the revised estimates in respect of a financial year. Such recoupements to the fund have necessarily to be brought to the notice of the legislature and their approval obtained. Sometimes it may happen that there are possibilities of arranging funds required for the purpose through re-appropriation as a result of savings available in a grant. In such situations a token amount is included in the supplementary budget of the government with explanation that the remaining amount is

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being arranged through the process of re-appropriation of funds. The authorities working out the expenditure estimates in respect of the functions under their control should take special note of the said requirement of accepted budgetary principles.

4.16.0 Public Account.

4.16.1 The composition of public account has been described in detail in chapter 3.0.0. It may be recalled that the main sections of public account are small savings, provident funds etc., reserve funds, deposits and advances, suspense and miscellaneous and remittances. The transactions occurring under each of these sections are by and large of adjusting nature. The accounts are by and large maintained by the accountants general of the respective states except in respect of the cases where such responsibility is undertaken by the state government. Generally small savings, provident funds etc. accounts are maintained by the state authorities. In respect of these accounts it is responsibility of the respective account maintaining authorities to prepare budget estimates. These estimates are drawn on the basis of trend of past actuals which may however, be modified on certain known facts, for example, it may be found that full coverage has not been given to the employees in respect of their provident funds, insurance funds and pension funds. In that situation, therefore, a drive may have to be launched to bring more employees under these schemes resulting consequently in pitching the estimates at a comparatively higher level.

4.16.2 In respect of some reserve funds like famine relief fund, central road fund, roads and bridges fund, deposits of local fund etc. the estimates have to be worked out with reference to the rules governing such funds. The expenditures initially provided for meeting the purpose of the funds in the consolidated fund are eventually transferred to these reserves and deposits.

4.16.3 The estimates under public account need a careful appraisal as these may call for adjustments which may not have been carried out earlier due to one reason or the other. Such adjustments if not provided for and carried out properly at the appropriate time may even lead to understating the expenditures under various functions resulting in difficulties for settlement with government of India, other states and organizations.

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4.16.4 It has been observed that formulation of budget and exercise of control over it in the public account does not receive the desired attention. May be because this part of the budget does not need vote of the legislature and its compilation is taken as an accounting problem only. This tendency has to be curbed. General assessment indicates that around fifty percent financial transactions of the government originate and conclude in the public account. Appropriate and careful handling of the budget exercise in this account can, therefore, have a significant impaction the public finance.

4.17.0. Budget estimates in respect of new services:

4.17.1 Generally speaking estimates relating to the expenditure as may be necessitated due to adoption of a new policy or a new facility or substantial alteration in the existing service is treated as a "New service". It may be mentioned that no precise definition of the term has been evolved so far. The general test applied in this behalf is to see whether any provision was made for a particular service in the previous years budget before such a service could be classified as a new service. A substantial addition to the existing services for which provision of funds exists is also treated as new service. In other words, any additional expenditure on account of ordinary expansion of an existing service does not attract limitations for being classified as new service expenditure. On the other hand substantial addition to be made to the existing activity has to be taken as a new service. Some of the guiding factors for determining whether expenditure is on a new service or not are: -

- Substantial increase in the existing staff of a scheme.
- Provision of pay scales involving additional recurring expenditure excepting that, which is caused by their unifications.
- Conversion of the temporary posts into permanent ones involving additional recurring expenditure over a pre-determined ceiling.
- Revival of posts previously retrenched within the cognizance of the Legislature.
- Refund of amounts in pursuance of a deliberate change in policy.
- Purchase of new machinery, plant or other dead stock on non-recurring basis involving an expenditure of large scale.
- Substantial increase in grants-in-aid given to various organizations including NGOs.

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4.17.2 Expenditure on a new service can not be incurred unless it has been provided for in the budget. For this purpose therefore it is necessary that self contained proposals are drawn and examined and sanctioned by the competent authority declared or set up in this behalf before their inclusion in the budget.

4.17.3 During the course of a year it may sometimes happen that expenditure on new service cannot be avoided and has to be incurred due to one reason or other. Under such circumstances, an advance is obtained from the contingency fund to be recouped subsequently when the legislature meets. It may also happen that an expenditure on a new service is adjudged as such after close of a financial year. Obviously, no advance may have been obtained from the contingency fund for funding of such expenditure. In such cases the legislature is deprived of the opportunity to examine and approve such expenditures by the executive without their approval. A question has arisen as to how such expenditures, which are irregular, can be regularized. The legal opinion on the subject is that such expenditures cannot be regularized even by the legislature unless the constitution is amended to provide for such regularization. It is also held that a such constitutional provision may not be necessary in case detailed guidelines are drawn for determining a new service before such expenditure is authorized. Comprehensive list of new services can be drawn on the basis of the case law developed in this area during deliberations of the public accounts committees.

4.18.0. Consolidation of the budget:

4.18.1 Consolidation is summation of the estimates drawn under different sectors of classification so that an overall position of estimated receipts and disbursements during the budget year emerges. Such type of consolidation enables to find out deficit and surplus on various accounts for the required measures to handle such situation.

4.19.0. Fund flow estimation:

4.19.1. Inflow and outflow of funds does not remain same during different periods of the budget year. Sometimes cash inflow is more than the outflow. Similarly, during some periods the outflow exceeds inflow. In the former situation it becomes necessary to invest the surplus funds in guilt edged securities, which are readily encashable. In the event of shortfall in the revenue it becomes essential that the gap is bridged by resorting to short term borrowings including obtaining of

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overdrafts from the bankers of the government. In order to give a scientific base to the requirements of the cash management it will be proper to formulate a fund flow forecast for the budget year and watch its behaviour while the budget is under implementation.

4.19.2 For the said purpose the budget forecasts need to be bifurcated into quarters of the year. This process will generate targets for the implementing agencies to be monitored at various levels of governance.

4.20.0. Budget formats:

4.20.1 Preparation of the budget apart from being a thought provoking exercise is also voluminous involving numerous government agencies. In order to facilitate making of this exercise and collection of datas on uniform basis, it is always preferable that standardized formats are used. These formats have been evolved for different aspects of budget formulation and are annexed to this chapter.

Budget Form 01
Revenue receipts estimates

Major Head: _____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]

Submitting Authority
- Collecting officer _____
- Controlling officer_____
- Head of the department_____

Non-Plan | State Plan | EAP | CSS | Central Plan

Minor Head/Sub Minor Head/ Detailed Head	Accounts/Years (Current level)						
	1st	2nd	3rd	Avg. for 3 Yrs.	Last 6 months previous Year.	First 6 months of the current yr	Avg. of 6 & 7
1	2	3	4	5	6	7	8

Estimates for current year		Estimates for Budget year
Budget estimates	Revised estimates	
9	10	11

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NP=Non-Plan, SP= State Plan, EAP=Externally aided projects, CSS=Centrally sponsored schemes, and CP=Central Plan.

Notes : 01. Separate forms shall be filled for NP, SP, EAP, CSS and CP. 02. All the levels will use the same form. 03. Controlling officers will consolidate the details received from revenue collecting officers. The head of the department shall do so in respect of the controlling officers within the control of that authority. 04. Columns 2-5 will indicate actual during three years preceding that in which budget estimates are drawn and their average. 05. Column 6 will indicate actual for the period in the year, preceding that in which budget estimates are drawn. 06. Column 7 will indicate actual for the year in which budget estimates are drawn.

Budget Form 02

Estimation of recovery of Revenue Receipt arrears with their age analysis

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Submitting Authority
- Collecting officer _____
- Controlling officer _____
- Head of the department _____

Non-Plan | State Plan | EAP | CSS | Central Plan

Minor Head/ Sub-Minor Head/Detail-Ed Head	Arrears at the close of year in which estimation is made						
	O/B	Addl.	Recovery Estimates	C/B			
				3 Yr. old	5 Yr. old	Current	Total
1	2	3	4	5	6	7	8

Recovery Estimates assumed in Budget Yr. out of arrears				Closing Balance (est). of arrears at the close of the Budget Yr. out of			
3 Yr. old	5 Yr. old	Current	Total	3 Yr. old	5 Yr. old	Current	Total
9	10	11	12	13	14	15	16

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Budget Form 10
Establishment Budget

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Submitting Authority
- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No__
- Controlling officer_____Code No._____

Object of expenditure: **Salaries** NP SP EAP CSS CP

S. No.	Minor Head/Sub Minor Head/ Designation of the post	No. of posts	Scale of pay	Status of post	Salary for the year		
					ON 1st April	Addl. in the Yr.	Total for the Yr.
1	2	3	4	5	6	7	8 (6+7)

Allowances for the year	Total Allowances	Total Salary & Allowances
9	10	11

NOTE: Column 9 should be suppored by a detailed statement to be annexured to this form.

Budget Form 11

Impact of Vacant and Surplus Posts on the Salary Estimates

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Submitting Authority
- Controlling officer_____
- Code No. _____

NP SP EAP CSS CP

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S. No	Minor/Sub Minor Head/ Designation of the post	No. of posts		Scale of pay		Estimates for the year					
		Vacant	Sur-plus	Vacant	Sur-Plus	Vacant			Surplus		
						Sal ary	Allow-ance	Total	Sala ry	Allow-ance	Total
1	2	3	4	5	6	7	8	9	10	11	12

Note : Column meant for allowances may be supported by a detailed statement.

Budget Form 12

Estimation of Expenditures other than Salary and Works in the Revenue Account

Major Head: _____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]

Submitting Authority

- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No__
- Controlling officer_____Code No._____

NP | SP | EAP | CSS | CP

Minor Head/Sub Minor Head/ Detailed Head	Accounts/Years (Current level)						
	1st	2nd	3rd	Avg. for 3 Yrs.	Last6 months provisions Yr.	First 6 months of the current year	Avg. of 6 & 7
1	2	3	4	5	6	7	8

Estimates for current year		Estimates for Budget year
Budget estimates	Revised estimates	
9	10	11

NP=Non-Plan, SP= State Plan, EAP=Externally aided projects, CSS=Centrally sponsored schemes, and CP=Central Plan.

Notes : 01. Separate forms shall be filled for NP, SP, EAP, CSS and CP. 02. All the levels will use the same form. 03. Drawing and disbursing officer will consolidate the details received from disbursing officers. The controlling officer shall do so in respect of the drawing and disbursing officers within

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the control of that authority. 04.Columns 2-5 will indicate actual during three years preceding that in which budget estimates are drawn. 05. Column 6 will indicate actual for the period in the year, preceding that in which budget estimates are drawn. 06. Column 7 will indicate actual for the end of the year in which budget estimates are drawn.

Budget Form 13

Estimates of expenditure under Maintenance & Repairs

Major Head: _____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]

Submitting Authority

- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No___
- Controlling officer_____Code No._____

NP SP EAP CSS CP

Minor Head/ Sub Minor Head/ Detailed Head	Book value (aggregate) EOY	Current level of exp. Based on last 3 years Average				Current Estimates		Estimates for Budget year
		1st	2nd	3rd	Avg.	Budget Estimates	Revised Estimates	
1	2	3	4	5	6	7	8	9

NP=Non-Plan, SP= State Plan, EAP=Externally aided projects, CSS=Centrally sponsored schemes, and CP=Central Plan. EOY= End of year.

Budget Form 14

Estimation of works expenditure

Major Head: _____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]

Submitting Authority

- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No__
- Controlling officer_____Code No._____

NP SP EAP CSS CP

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Minor Head/ Sub Minor Head/ Description of works	Approved outlay	Expenditure ending year in which estimation is made			Estimates for the current year		Estimates for Budget year
		At the beginning	Additions	Total	Budget Estimates	Revised Estimates	
1	2	3	4	5	6	7	8

NP=Non-Plan, SP= State Plan, EAP=Externally aided projects, CSS= Centrally sponsored schemes, and CP=Central Plan.

Notes : 01. Separate forms shall be filled for NP, SP, EAP, CSS and CP. 02. All the levels will use the same form. 03. Drawing and disbursing officer will consolidate the details received from disbursing officers. The controlling officer shall do so in respect of the drawing and disbursing officers within the control of that authority.

Budget Form 20
Estimation of expenditure in respect of Trading programmes /schemes under taken by the Government

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Submitting Authority
- Disbursing officer _____ Code No._____
- Drawing & Disbursing officer____ Code No___
- Controlling officer_____ Code No._____

Minor Head/ Sub Minor Head/ Detailed Head	Avg. level of expenditure in last three years				Estimates for the current year		Estimates for the Budget year
	1st	2nd	3rd	Avg.	Budget Estimates	Revised Estimates	
1	2	3	4	5	6	7	8

Budget Form 21
Estimation of recoveries in respect of the trading programmes/schemes undertaken by the Government

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

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Sub Major Head _____ Month of submission ☐☐

Submitting Authority

- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No__
- Controlling officer_____Code No.____

Minor Head/ Sub Minor Head /Detailed Head	Outstandings at the close of the year in which estimation is made				Estimates for the current year				Estimates for the Budget year		
					Budget estimates		Revised estimates				
	O/B	Additions	Recovery	C/B	Arrears	Current	Arrears	Current	Arrears	Current	Total
1	2	3	4	5	6	7	8	9	10	11	12

Budget Form 22

Estimation of investments in PSUS and other enterprises

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Submitting Authority

- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No__
- Controlling officer_____Code No._____

NP | SP | EAP | CSS | CP

Minor Head/ Sub Minor Head/ Description of the PSU/ Enterprises	Level of investment ending year in which estimation is made			Estimates for current year		Estimates for Budget year
	O/B	Additions	Total	Budget Estimates	Revised Estimates	
1	2	3	4	5	6	7

Notes : 01. Separate forms shall be filled for NP, SP, EAP, CSS and CP.

Budget Form 23

Estimation of expenditure in respect of Loans and Advances given by the Government

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

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Submitting Authority
- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No___
- Controlling officer_____Code No._____

NP	SP	EAP	CSS	CP

Minor Head/Sub Minor Head/ Detailed Head	Avg. level of expenditure in last three years				Estimates for the current year		Estimates for the Budget year
	1st	2nd	3rd	Avg.	Budget Estimates	Revised Estimates	
1	2	3	4	5	6	7	8

Notes : 01. Separate forms shall be filled for NP, SP, EAP, CSS and CP.

Budget Form 24
Estimation of recoveries in respect of Loans and Advances given by the Government

Major Head: ____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]

Submitting Authority
- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No___
- Controlling officer_____Code No.____

Minor Head/ Sub Minor Head /Detailed Head	Outstandings at the close of the year in which estimation is made				Estimates for the current year		Estimates for the Budget year		
	O/B	Additions	Recovery	C/B	Budget Est.	Revised Est.	Arrears	Current	Total
1	2	3	4	5	6	7	8	9	10

Budget Form 30
Estimation for raising of Internal Public debts

Major Head: _____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

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Sub Major Head _____ Month of submission ☐☐

Controlling officer : Finance Department

Minor Head/ Sub Minor Head/ Detailed Head	Current level of debts raised based on last 3 years				Estimates for current year		Estimates for Budget year	
	1st	2nd	3rd	Avg.	Budget Estimate	Revised Estimate	Approved for the yr	Estimate
1	2	3	4	5	6	7	8	9

Budget Form 31

Estimates for repayment of Internal Public Debts

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Controlling officer : Finance Department

Minor head/ Sub Minor Head /Detailed Head	Outstandings at the close of the year in which estimation is made				Estimates for the current year		Estimates for the Budget year		
	O/B	Additions	Re-payment	C/B	Budget Est.	Revised Est.	Arrears	Current	Total
1	2	3	4	5	6	7	8	9	10

Budget Form 32

Estimation of Transfer of resources from centre to the State including Loans and Advances

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Controlling officer : Finance Department

Minor Head/ Sub Minor Head/ Detailed Head	Source of Transfer	Nature of Transfer	Actual	Estimates for current year			Estimates for budget year
				Budget Est..	Receipts to date	Revised Estimates	
1	2	3	4	5	6	7	8

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Note : 1. Actual in column 4 to be given in respect of the year proceeding that in which estimates are drawn.

Budget Form 33

Estimates on a/c of repayment of Loans & Advances received by the Government from centre and others

Major Head: _____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Submitting Authority

- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No___
- Controlling officer_____Code No._____

Minor Head/ Sub Minor Head /Detailed Head	Outstandings at the close of the year in which estimation is made				Estimates for the current year		Estimates for the Budget year		
	O/B	Additions	Recovery	C/B	Budget Estimates	Revised Estimates	Arrears	Current	Total
1	2	3	4	5	6	7	8	9	10

Budget Form 35

Estimates of expenditure for recoupment of advances from the Contingency Fund

Major Head: ____ Budget Year ☐☐☐☐ - ☐☐☐☐

Sub Major Head _____ Month of submission ☐☐

Submitting Authority

- Disbursing officer _____Code No._____
- Drawing & Disbursing officer____Code No___
- Controlling officer_____Code No._____

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Minor Head/ Sub Minor Head/ Detailed Head	Advance(s) drawn				Recoupment Estimate for Budget year		
	Auth-ority	Ref-erence	Month of drawal	Amount	From within the grant	By supplem entary grant	Total
1	2	3	4	5	6	7	8

Budget Form 40
Estimates of receipts under unfounded debts

Major Head: ____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]
Submitting Authority Code No.___

GPF CPF SLI Others

GPF=General Provident Fund, CPF=Contributory Provident Fund, SLI=State Life Insurance.

Note : Separate form to be used for GPF, CPF, SLI and others.

Minor Head/Sub Minor Head/Detailed Head	Current level of receipts based on last 3 yrs. A/cs				Current Year		Estimates Budget year
	1st	2nd	3rd	Avg.	Budget Estimates	Revised Estimates	
1	2	3	4	5	6	7	8

Budget Form 41
Estimates for disbursements under unfounded debts

Major Head: _____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]
Submitting Authority Code No._____

GPF CPF SLI Others

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GPF=General Provident Fund, CPF=Contributory Provident Fund, SLI=State Life Insurance.

Minor Head/ Sub Minor Head/Detailed Head	Balance in the Fund at the close of Current year				Estimates for Budget year	
	O/B	Addition	Withdrawal	C/B	Withdrawal	C/B
1	2	3	4	5	6	7

Note : Separate form to be used for GPF, CPF, SLI and others.

Budget Form 50

Estimates of receipts under Public A/c other than unfounded debts

Major Head: _____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]

Submitting Authority Code No.____

Minor Head/ Sub Minor Head/Detailed Head	Current level of receipts based on last 3 yrs. A/cs				Current Year		Estimates Budget year
	1st	2nd	3rd	Avg.	Budget Estimates	Revised Estimates	
1	2	3	4	5	6	7	8

Budget Form 51

Estimates of disbursements under Public A/c other than unfounded debts

Major Head: ____ Budget Year [ ][ ][ ][ ] - [ ][ ][ ][ ]

Sub Major Head _____ Month of submission [ ][ ]

Submitting Authority Code No.___

Minor Head/ Sub Minor Head/ Detailed Head	Balance in the Fund at the close of Current year				Current Year		Estimates for Budget year	
	O/B	Addition	Withdrawal	C/B	Budget Estimates	Revised Estimates	Withdrawal	C/B
1	2	3	4	5	6	7	8	9

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Chapter 5

PASSAGE OF BUDGET IN THE LEGISLATURE

5.1.0 General:

5.1.1. All the matters relating to a budget are dealt with in the legislature during a special session called for the purpose annually, and termed as "Budget Session". The budget as compiled by the executive is placed before both the houses of the legislature on a date fixed by the head of the state (president in case of union budget and governor in case of state budget).

5.1.2. Budget session generally starts either in the last week of February or first week of March every year. In case of union government presentation of the budget is made on 28th of February every year as at present. The Legislature is required to complete the whole process of passing the budget and adopting the law of appropriation before commencement of the year to which it relates i.e, first day of April every year. These deliberations of the Legislature are, however, under certain circumstances extended beyond first of April also.

5.1.3 The deliberations of legislature on the state budget pass through the following stages:

- Presentation of budget.
- Moving of demands for grants.
- Consideration of appropriation bill and
- Adoption of the appropriation act.

5.1.4 All these stages of budget examination and its approval by the legislature have to be backed by sanctions of the president/ governor. These sanctions are the instruments issued separately as under:

- Sanction to the presentation and consideration of the budget.
- Sanction for moving of demands for grants.
- Sanction for introduction and consideration of appropriation bill.

5.1.5. Certain other matters relevant to the passage of the budget in the legislature are also deliberated upon. Passage of the budget in all the above-mentioned stages is discussed in the following paras: -

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5.2.0 Presentation of budget:

5.2.1. Presentation of budget is a very important occasion for the legislature and the nation as it is on this day various fiscal plans relating to governance, developmental programmes and other regulatory measures become known.

5.2.2. On the day fixed for budget presentation the finance minister introduces the budget by reading a written budget speech. This is done in both the houses of the legislature simultaneously. For this purpose the finance minister has been defined to mean any member of the council of minister. Thus, while the finance minister introduces the budget and reads out the budget speech in the lower house, any other council member does so in the upper house. Earlier the practice used to be that while the finance minister would be delivering the budget speech all the doors of the legislature would remain closed. The justification for this being that the first privilege of knowing the details of the annual financial statement has to be that of the hon'ble members of the house. The practice has changed now and the whole proceeding of the budget presentation is televised. In this manner the contents of the budget become known simultaneously within and outside the legislature.

5.2.3 The budget speech besides explaining salient features of the estimates included in the budget also gives an account of the past performance and the economic policies of the government. It also outlines the steps that are proposed to be taken for raising of additional resources and the expected expenditure target, both developmental and non-develop-mental. At the end of the speech the finance minister lays the budget on the table of the house. With this the deliberations of the house are closed for the day.

5.2.4. In order to enable the members of the legislature to understand and appreciate the contents of the budget documents made available to them an economic survey of the country is tabled in the parliament prior to budget presentation. This document generally speaking, gives behavour of the economy of the country during the year previous to that in which budget is presented, using various indicators relevant to the subject. The idea being that budget has to have relevance to the current economic scenario of the country. Some of the states also follow this practice.

5.2.5 No business is generally conducted for two to three days after presentation of the budget to enable the members to study the

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budget documents for purposeful subsequent deliberations. This is followed by general discussion on the budgetary proposals of the executive in the legislature. Every member is free to raise any issue relating to the budget during these general discussions. Every political party and independent members are allotted time by the speaker according to a time schedule evolved and adopted for the purpose after consultations with the leaders of the different parties in accordance with the rules prescribed for conduct of business in the house.

5.2.6 The points raised during general discussion on budget are replied by the finance minister as far as possible. No motions are made or entertained during these discussions. Some points of order emanating from violations if any, made from accepted norms for budget presentation and general discussion relating thereto are however, considered by the speaker who may or may not allow these to be brought under consideration.

5.3.0. Moving of demands for grants:

5.3.1 Demands for grants are statements of expenditure to cover requirements of the executive on various functions undertaken by it through its various ministries / departments and for which authorization of the legislature is required. Obviously, demands for grants include all expenditures in the consolidated fund other than those, which are declared as charged on the fund under various provisions of the constitution. The charged items of the expenditure are not subject to vote of the legislature. There is however, no bar in discussing components of the charged expenditure also. The demand for grants covers activities of one ministry/department. There may however, be more than one demand for a grant for a ministry / department depending upon magnitude of the activities undertaken.

5.3.2. Format for demands of grants has to be fixed by the executive in consultation with the estimates committee of the legislature. Generally a demand for grant has four parts as under: -

Part I - Indicates total funds required under a demand

Part II - Gives details of the funds included in the demand by major heads of account.

Part III - Gives minor head-wise details of the requirement of funds under a demand.

Part IV - Records details of items of expenditure on new services included in a demand.

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For all items of expenditure estimates in all parts of demand figures are supplied separately for: -

- actuals for the previous year,
- budget estimates of the current year that is in which budget is presented,
- revised estimates for the current year that is in which budget is presented; and
- budget estimates for the year to which budget relates.

5.3.3. A demand for grant is prepared for gross amount of expenditure that is, without taking into consideration the recoveries for the reason that the legislature has to authorize all the expenditure from the consolidated fund.

5.3.4 Motion for taking a demand for grant into consideration by the house is moved by the concerned minister in the following form: -

> "that a sum of not exceeding Rs._____ be granted to the government to defray charges which will come in course of payment during the year ending 31st day of March _____ in respect of _____."

5.3.5. The words "not exceeding" may be noted. It means that only maximum amount of the requirement is mentioned in the motion which when passed cannot be exceeded. At the same time, it is not necessary to spend the amount specified in the demand for grant in full, in case need of the public service to which the demand relates can be met within a smaller sum. The motion thus, moved becomes open for deliberations by the members. It has to be noted that the demands for grants are moved in the legislative assembly only because it is that body which has final authority to authorize appropriation from and out of the consolidated fund.

5.3.6. When a demand is moved in the manner mentioned above members are free to table cut motions with the objective of making reductions in the amount in a particular demand. These motions cause a chance to generate a debate on any policy of the government under laying a demand need for enforcing economy consistant with efficiency while implementing a programme by it or high light a specific grievance or a view point of a member. Cut motions create a chance to enable a member to ventilate his/her grievances about a specific policy or its implementation by any ministry/department of the government. There are three types of cut motions, namely: -

- disapproval of policy Cut

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- economy Cut
- token Cut

The purpose and contents of these cut motions are described in the "Rules of procedure and conduct of business in legislative assembly". The relevant abstract of these rules as applicable to the J&K state are given in **Annexure –5.01** of this chapter.

5.3.7. A cut motion has to be admitted for discussion by the speaker. Such a motion can be disallowed if it does not conform to the requirements for its admissibility under the rules of procedure and conduct of business in the house. In view of this, while making a cut motion a member has to specify as to what is proposed to be highlighted in such a motion. After a cut motion is admitted it is passed on to the executive well in advance so as to provide ample opportunity to the minister concerned to prepare himself to face the point(s) that may be raised by a member. After cut motions are discussed the concerned minister replies the debate which should be to the satisfaction of the member moving a motion who has right to withdraw it after listening to the minister or press for a vote. At the closing hour of such discussion fixed under rules by the house or at such other hour as the hon'ble speaker may fix in advance during the days allotted for voting of demands of grants the speaker shall forthwith put every question necessary to dispose off all outstanding matters in connection with demands for grants. Time allotted for discussion on demands for grants and their ultimate disposal is not normally extended.

5.3.8 The legislature may either accord assent to the demands or refuse to give assent to any demand or give assent to a demand subject to reduction of amount specified there in.

5.3.9. It may be noted that the legislature has no authority under the constitution to increase the amount specified in a demand for grant. A demand for a grant when passed by the legislature becomes "Grant."

5.4.0 Consideration of appropriation bill:

5.4.1. Voting of expenditure estimates through demands for grants does not by itself confer authority to the government for incurring of expenditures. Therefore, after the demands for grants are passed by the legislative assembly an appropriation bill is introduced by the finance minister for consideration and passing by the house. As

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pointed out earlier this process has also to be done with the sanction of the president/governor.

5.4.2. The appropriation bill aims at authorizing appropriation from and out of the consolidated fund of all moneys voted as well as those, which are treated as charged on the consolidated fund. The services and the purposes for which appropriations are thus proposed to be obtained are indicated in the schedule attached to the appropriation bill.

5.4.3. The bill when introduced and taken up for consideration it is put to a general debate by the members of the house. This debate is restricted to the matters of public importance. Only such of the points can be raised which have not been brought under consideration during discussions on demands for grants or general discussions on the budget. No amendments can be proposed to the appropriation bill which have the effect of varying the amount or altering the destination of the grants made earlier by the house. The member desirous of taking part in such debate has to give an advance notice to the speaker who may withhold his consent to the raising of proposed issue(s) if he is satisfied that these are mere repetitions of the matter(s) already discussed or are not of sufficient public importance. The debate on the appropriation bill is concluded by the finance minister who replies the points raised by the participants in the debate. Where after the bill is put to vote of the legislative assembly. After the bill is thus passed other processes as discussed herein after are undertaken to give it a form of an act of the legislature. In case however, the bill is not passed for whatsoever reason, the government falls because such an act is taken as a expansion of vote of no confidence. Further action in this situation is taken as per requirements of the constitution.

5.4.4. After the bill is passed by the legislative assembly it has to be certified to be a money bill by the speaker and thereafter referred to the upper house for their consideration. The upper house cannot reject a money bill as the final authority for passing such a bill vests with the legislative assembly. The upper house has however, power to make recommendation with regard to modifications considered necessary by them for acceptance of the legislative assembly. This power is also subject to limitations as under: -

- The upper house must, within a period of 14 days from the receipt of the bill return it to the legislative assembly with their recommendations.

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- The legislative assembly may accept or reject all or any of the recommendations of the upper house.
- In case the bill is not returned within this stipulated period of time it is deemed to have been passed by both of the houses in the same form in which it stands passed by the lower house.

5.4.5. The appropriation bill when passed by both the houses of the legislature is submitted to the president/governor for ascent. Once this ascent is accorded the appropriation bill becomes an appropriation act giving legal authority to the government to authorize expenditures from and out of the consolidated fund in accordance with the stipulations made in the act.

5.5.0 Money bill and finance bill:

5.5.1. These are two types of the bills provided for in the constitution for dealing with the financial matters of the state by the legislature. Distinction between money bill and finance bill has to be understood clearly. A money bill is deemed to be one if it contains ONLY provisions dealing with all or any of the following matters: -

- The imposition, abolition, remission, alteration or regulation of any tax;
- The regulation of borrowing powers of the government:
- custody of the consolidated fund or the contingency fund, the Payment of moneys into or withdrawal of money from any such fund:
- The appropriation of moneys out of the consolidated fund:
- The declaring of any expenditure as charged on the consolidated fund or increasing amount of any such expenditure:
- The receipt of money on account of consolidated fund or public account or the custody or issue of such money or the audit of the accounts of the union or a state.
- Any matter incidental to any of the matters specified above.

5.5.2. It has to be noted that a bill shall not be deemed to be a money bill by reason only that it provides for imposition of fines or other pecuniary penalties or for demand or the payment of fee for license or fee for services rendered: or by reason that it provides for the imposition, remission, abolition, alteration or regulation of any tax by local body for local purposes. These can be the matters incidental to the enforcement of any normal legislation not falling in the category of a money bill.

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5.5.3. Decision of the hon'ble speaker whether a bill is a money bill or not is final. This means that when a bill is certified to be a money bill by the said authority it can not be challenged by any authority whether, it be court or even the president or the governor of a state.

5.5.4. All money bills are introduced in the legislative assembly with the sanction of the president/governor. It is this house which has final authority to deal with such bills. Power of the upper house in respect of such bills is limited. They can make only recommendations for consideration by the legislative assembly. In case such bills are passed by the legislative assembly after accepting the recommendations of the upper house it is deemed to have been passed by both the houses. In case the upper house retains the bill for more than 14 days it is deemed to have been passed at the expiry of said period in the form in which it was passed by the legislative assembly. Thus, it will be seen that the pro-visions of the constitution relating to joint sitting in the event of disagreement between two houses are not attracted in case of money bills.

5.5.5. Finance bill is one, which relates to revenue or expenditure. The finance bills are of two kinds as under: -

01. Those bills which contain any of the matter, which fall within the jurisdiction of money bill, but does not deal exclusively with such matters. The example can be a bill, which has a clause dealing with taxation but does not exclusively deal with the taxation as such.

02. Those ordinary bills, which involve expenditure from the consolidated fund.

5.5.6. It has been already stated that a money bill can not be introduced in the council of state (upper house) and without recommendation of the president/governor. Similar is the case with regard to finance bill falling under category (01) above. But such bills not being money bills as such do not bear the certificates of the speaker and that being so the upper house has the same power for accepting or rejecting these bills in the same manner as it can do in case of ordinary bills. Obviously, therefore disagreement between two houses attracts the provision relating to the joint sitting which is not the case with the money.

5.5.7. The other finance bills falling under category (02) above which involve expenditure from the consolidated fund and does not include any matter(s) which come within the ambit of a money bill have to

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be treated as ordinary bills. These bills can therefore, be initiated in any of the house - both the houses having the same powers. Since however, such bills involve expenditures it is necessary that the president/governor should give recommendation before these are taken up for consideration. That is to say that these bills cannot be introduced without recommendation from the president or the governor.

5.6.0 Vote on account:

5.6.1. The legislative assembly has a power to make any grant in advance in respect of the estimated expenditure for a part of any financial year pending completion of the procedure prescribed for such grants and passing of the law authorizing appropriation of moneys out of the consolidated fund to meet that expenditure. Such grants are called "vote on account."

5.6.2 Necessity for obtaining a vote on account may arise every year so as to give full opportunity to the legislature to discuss the annual financial statement and the period of such an examination may extend beyond the date of commencement of the financial year to which this statement relates. In order to enable the government to meet expenditure on various services during this period they obtain vote on account. Similarly, in the year when general election has to be held, the government of the day is only a caretaker government. The new government that gets installed after election is to have their own policies to implement. Under these circumstances, it is only right that the caretaker government should obtain vote on account only to enable it to carry on with its day to day requirements for running of administration. The budget being prepared by the new government after it assumes office.

5.6.3. The vote on account has also to be backed by an appropriation act which is obtained in the same manner as is done in case of a budget.

5.7.0. Supplementary grants:

5.7.1. If the sums authorized by the legislature to be spend on a service prove insufficient during the course of a year there will arise a need for obtaining supplementary grants. Similarly, when a new service has to be undertaken for which no provision was made in the original annual financial statement need for obtaining supplementary grant will arise. All such items are listed in a statement termed

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as "supplementary statement of expenditure", which is disposed off in the same way as the annual financial statement. A motion for supplementary grants states the total sum required and the amounts needed to be supplemented under each grant. The sums required under various grants are mentioned in a scheduled appended to the motion. A motion relating to supplementary demand is made by the finance minister. Debate on supplementary grants is confined to the items constituting the same and no discussion is allowed on the original grants or the policy underlying them, except in so far as it may be necessary to explain or illustrate the point under discussion.

5.8.0. Additional grants:

5.8.1 Additional grants are obtained from the legislature through a supplementary statement of expenditure so as to meet expenditure on a new service not contemplated in the original budget.

5.9.0 Excess grants:

5.9.1 If after close of a financial year it is found that expenditure under a grant has been more than the amount of funds that was available as a result of obtaining original grants through annual financial statement or supplementary or additional grants obtained through supplementary statements of expenditure or through both, excess grants have to be obtained from the legislature. For this purpose a statement of excess expenditure is presented to the house by the finance minister. Thus the "excess grants" are those, which are necessitated to cover the expenditures, which have been found to be in excess of the appropriations available during a year, which has already passed. It is therefore a post budget exercise. Such excesses are brought out in the appropriation accounts and the excess grants to cover these are obtained on the recommendations of the public accounts committee. This committee examines each such case before making its recommendations. Obtaining of excess grants provides an opportunity to the legislators to find out as to the manner in which a budget passed by them for a year has been concluded by the government and how that conclusion has been viewed by their committee on public accounts.

5.10.0 Exceptional grants:

5.10.1 The legislature has also power to make exceptional grants which form part of the current services of any financial year. These are necessitated because of difficulty in anticipating estimates of

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expenditure in respect of certain services to be provided by the Government because of their unpredictable nature due to one reason or the other.

5.11.0 Token grants:

5.11.1 When during the course of a financial year it is found that expenditure on a new service for which funds should have been obtained from the legislature can be arranged through an act of re-appropriation for which the executive has powers, a token grant is obtained for rupee one or rupees hundred. Through this process, the executive obtains consent of the legislature for taking up of such a new service. No, separate motion is made for obtaining such grants which are obtained through supplementary statement of expenditure. In this statement, it is specifically indicated against such an item that the proposed estimates of expenditure are only token expenditures for which token grants are required as appropriation for such purposes can be arranged though re-appropriation within a grant.

5.12.0 Procedures in financial matters:

5.12.1 The procedures for conduct of business relating to financial matters as contained in chapter xx of the "Rules of procedure and conduct of business in the J&K legislature assembly" are given in **Annexure 5.01** to this chapter for ready reference.

Annexure-5.01

(Ref. Para 5.3.6)

Procedure for conduct of business relating to financial matters as contained in "Rules of procedure and conduct of business in legislative assembly"

(a) The Budget.

The Budget: (1) The Annual Financial Statement or the Statement of the Estimated Receipts and Expenditure of the Government in respect of each financial year (thereinafter referred to as 'the Budget') shall be presented to the House on such day as the Governor may direct. (2) The Budget shall be presented to the House in such form as the Finance Minister may settle.

Budget not to be discussed on presentation. There shall be no discussion of the Budget on the day on which it is presented to the House.

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(b) Demands for Grants.

Demands for Grants:- A separate demand shall ordinarily be made in respect of the grant proposed for each Ministry; provided that the Finance Minister may include in one demand grants proposed for two or more Ministries or Departments or make a demand in respect of expenditure which cannot readily be classified under particular Ministries. (2) Each demand shall contain first a statement of the total grant proposed and then a statement of the detailed estimate under each grant divided into items.

General discussion on the Budget : (1) On a day to be appointed by the Speaker subsequent to the day on which the Budget is presented and for such time as the Speaker may allot for this purpose, the House shall be at liberty to discuss matters raised in the Budget or concerning, or connected with the Budget or any question of principle involved therein, but no motion shall be moved nor shall Budget be submitted to the vote of the House. (2) The Finance Minister shall have a general right of reply at the end of discussion. (3) The Speaker may, if he thinks fit, prescribe a time limit for speeches.

Voting of demands for grants: (1) The speaker shall, in consultation with the Leader of the House, allot so many days as may be compatible with the public interest for the discussion and voting of demands for grants. (2) On the last day for the allotted days at the closing hour fixed, under these rules or, by the House, or at such other hour as the Speaker may fix in advance, the Speaker shall forthwith put every question necessary to dispose of all the outstanding matters in connection with the demands for grants. (3) Motions may be moved to reduce any demand for grant. (4) No amendments to motions to reduce any demand for grant shall be permissible. (5) When several motions relating to the same demand for grant are offered, they shall be discussed in the order in which the heads to which they relate appear in the Budget.

Cut motions. A motion may be moved to reduce the amount of a demand in any of the following ways:-

(i) "that the amount of the demand be reduced by Rs.1/-", representing disapproval of the policy underlying the demand. Such a motion shall be known as 'Disapproval of Policy Cut'. A member giving notice of such a motion shall indicate in precise terms the particulars of the policy, which he proposes to discuss. The discussion shall be confined to

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the specific point or points mentioned in the notice and it shall be open to members to advocate an alternative policy ;

(ii) "that the amount of the demand be reduced by a specified amount" representing the economy that can be effected. Such specified amount may be either a lump sum reduction in the demand or omission or reduction in the demand or omission or reduction of an item in the demand. The motion shall be known as "Economy Cut". The notice shall indicate briefly and precisely the particular matter on which discussion is sought to be raised and speeches shall confined to the discussion as to how economy can be effected ;

(iii) "that the amount of the demand be reduced by Rs. 100/-" in order to ventilate a specific grievance which is within the sphere of the responsibility of the Government. Such a motion shall be known as "Token Cut", and the discussion thereon shall be confined to the particular grievance specified in the motion.

Conditions of admissibility of cut motions. In order that a notice of motion for reduction of the amount of the demand may be admissible, it shall satisfy the following conditions, namely :-

(i) it shall relate to one demand only ;

(ii) it shall be clearly expressed and shall not contain arguments, inferences, ironical expression, imputations, epithets or defamatory statements ;

(iii) it shall be confined to one specific matter which shall be stated in precise terms ;

(iv) it shall not reflect on the character or conduct of any person whose conduct can only be challenged on a substantive motion ;

(v) it shall not make suggestions for the amendment or repeal of existing laws ;

(vi) it shall not refer to a matter which is not primarily the concern of the Government ;

(vii) it shall not relate to a matter which is under adjudication by a court of law having jurisdiction in any part of India ;

(viii) it shall not relate to a matter which is under adjudication by a court of law having jurisdiction in any part of India ;

(ix) it shall not raise a question of privilege ;

(x) it shall not revive discussion on matter which has been discussed in the same session and on which a decision has been taken ;

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(xi) it shall not anticipate a matter which has been previously appointed for consideration in the same session.

(xii) It shall not ordinarily seek to raise a discussion on a matter pending before, any statutory tribunal or statutory authority performing any judicial or quasi-judicial functions or any commission or, court of enquiry appointed to enquire into, or investigate, any matter:

Provided that the Speaker may in his discretion allow such matter being raised in the House as is concerned with the procedure of stage of enquiry, if the Speaker is satisfied that it is not likely to prejudice the consideration of such matter by the statutory tribunal, statutory authority, commission of court of enquiry : and

(xiii) it shall not relate on a trifling matter.

Speaker to decide admissibility of cut motions. The Speaker shall decide whether a cut motion is or is not admissible under these rules and may disallow any cut motion when in his opinion it is an abuse of the right of moving cut motions or is calculated to obstruct or prejudicially affect the procedure of the House or is in contravention of these rules.

Notice of cut motions. If notice of a motion to reduce any demand for grant has been given three clear days previous to the day, on which the demand is under consideration, any member may object to the moving of the motion, and such objection shall prevail, unless the Speaker allows the motion to be made.

Presentation of Budget in parts. Nothing hereinbefore contained shall be deemed to prevent the presentation of the Budget to the House in two or more parts and when such presentation takes place, each part shall be dealt with in accordance with these rules as if it were the Budget.

Vote on account. A motion for vote on account shall state the total sum required and the various amounts needed for each Ministry, Department or item of expenditure which compose that sum shall be stated in a schedule appended to the motion. (2) Amendments may be moved for the reduction of the whole grant for the reduction of omission of the items whereof the grant is composed. (3) Discussion of a general character may be allowed on the motion or any amendments moved thereto, but the details of the grant shall not be discussed further than is necessary to develop the general points.

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(4) In other respect, a motion for vote on account shall be dealt with in the same way as if it were a demand for grant.

Supplementary, additional, excess and exceptional grants and votes of credit. Supplementary, additional, excess and exceptional grants and votes of credit shall be regulated by the same procedure as is applicable in the case of demands for grants subject to such adaptation, whether by way of modification, addition or omission, as the Speaker may deem to be necessary or expedient.

Scope of discussion on supplementary grants. The debate on the supplementary grants shall be confined to the items constituting the same and no discussion may be raised on the original grants nor policy underlying them save in so far as it may be necessary to explain or illustrate the particular items under discussion.

Token grant. When funds to meet proposed expenditure on a new service can be made available by re-appropriation, a demand for the grant of a token sum may be submitted to the vote of the House and, if the House assents to the demand, funds may be so made available.

(c) Appropriation Bill.

Appropriation Bill. Subject to the provisions of the Constitution, the procedure in regard to an Appropriation Bill shall be same as for Bill generally with such modifications as the Speaker may consider necessary. (2) At any time after the introduction in the House of an Appropriation Bill, the Speaker may allot a day or days, jointly or severally, for the completion of all or any of the stages involved in the passage of the Bill by the House, and when such allotment has been made, the Speaker shall, at the closing hour fixed, under these rules or by the House, on the allotted day or the last of the allotted days, as the case may be, forthwith put every question necessary to dispose of all the outstanding matters in connection with the stage or stages for which the day or days have been allotted. (3) The Speaker may, if he thinks fit, prescribe a time limit for speeches at all or any of the stages for which a day or days have been allotted under sub-rule (2). (4) The debate on an Appropriation Bill shall be restricted to matters of public importance or administrative policy implied in the grants covered by the Bill which have not already been raised while the relevant demands for grant were under consideration. (5) The Speaker may, in order to

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avoid repetition of debate, require members desiring to take part in discussion on an Appropriation Bill to give advance intimation of the specific points they intend to raise, and he may withhold permission for raising such of the points as in his opinion appear to be repetitions of the matters discussed on a demand for grant or as may not be of sufficient public importance. (6) If an Appropriation Bill is in pursuance of a supplementary grant in respect of an existing service, the discussions shall be confined to the items constituting the same, and no discussion shall be raised on the original grant nor the policy underlying it save in so far as it may be necessary to explain or illustrate a particular item under discussion.

(d) Finance Bill.

Finance Bill : In this rule "Finance Bill" means the Bill ordinary introduced in each year to give effect to the financial proposals of the Government for the next following financial year and includes a Bill to give effect to supplementary financial proposals for any period. (2) At any time after the introduction in the House of a Finance Bill, the Speaker may allot a day or days, jointly or severally, for the completion of all or any of the stages involved in the passage of the Bill by the House, and when such allotment has been made, the Speaker shall at the closing hour fixed, under these rules or by the House on the allotted day or the last of the allotted days, as the case may be, forthwith put every question necessary to dispose of all the outstanding matters in connection with the stage or stages for which the day or days have been allotted:

Provided that if a Minister has a right of reply to the debate on the motion which is under discussion at such time, not being later than one hour prior to the closing hour so fixed, on that day and has not commenced his reply at such time, the Speaker shall inquire how much time not exceeding one hour he requires for his reply, and shall call upon any member for the time being addressing the House to resume his seat at such point of time as will be available, before the closing hour so fixed, the amount of time which the Minister has stated that he requires for his reply. (3) Where the question or one of the questions required by the sub-rule (2) to be put at the closing hour as aforesaid on the allotted day or the last day of the allotted days is that the Bill be passed, sub-rule (2) shall have effect notwithstanding that amendments to the Bill have been made. (4) Subject to the proviso to sub-rule (2), the Speaker may, if he thinks

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fit, prescribe a time limit for speeches at all or any of the stages for which a day or days have been allotted under that sub-rule. (5) On a motion that the Finance Bill be taken into consideration, a member may discuss matters relating to general administration, local grievances within the sphere of the responsibility of Government or monetary or financial policy of Government. (6) In other respects the rules applicable to Bills in Chapter X of these rules shall apply.

Business that can be taken up on a day allotted for financial business. Notwithstanding that a day has been allotted for other business under rule 222, 223, 233, or 234, a motion or motions for leave to introduce a Bill may be introduced on such day before the House enters on the business for which the day has been allotted.

Time limit for disposal of financial business. In addition to the powers exercisable under these rules, the Speaker may exercise all such powers as are necessary for the purpose of the timely completion of all financial business including allotment of time for the disposal of various kinds of such business ; and where time is so allotted, he shall, at the appointed hour, put every question necessary to dispose of all the outstanding matters in connection with the stage or stages for which time has been allotted.
Explanation. ----Financial business includes any business, which the Speaker holds as coming within this category under the Constitution.

Intimation to Finance Department. When the House has refused its assent to any demand or has assented to any demand subject to a reduction of an amount specified therein, the Secretary shall send an intimation of the same to the Finance Department.

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CHAPTER 6

EXECUTION OF BUDGET

6.1.0 General

6.1.1. In order to ensure orderly execution of the budget which is left to a large number of field formations of the government, there has to be a definite set of rules designed not only to ensure uniform accounting but also complete transparency for eventual evaluation. Every state as also the union government, frame such rules. It has however, to be noted that any mechanism evolved for the purpose has to be such which will meet requirements of the compilation of government accounts and their audit in accordance with requirement to the constitution. Budget, while being an action plan of a year also provides a general structural frame from maintenance and upkeep of accounts. The two have therefore to be co-related. In this chapter various matters related to execution of budget have been dealt with.

6.2.0. Distribution of budget

6.2.1. Execution of the budget starts immediately after the appropriation act becomes available. This act gives an authority to the government to incur expenditure. Such an authority is however, conditional - the conditions being:

- that the expenditure has to be kept within the appropriation as is made available from and out of the consolidated fund through the instrument of appropriation act,
- the appropriation has to be applied for the purpose(s), service(s) for which these are granted by the legislature. The purpose(s) and service(s) are described together with appropriation limits in the "Detailed Grants" which from basis of an appropriation act.

6.2.2. It has to be noted that availability of appropriation is not in itself sufficient for incurring of expenditure. It has also to be backed by adequate authority from the pre-defined functionaries of the government at various levels in accordance with the approved scheme of delegation of powers sanctioned by it from time to time.

6.2.3 With the above basic parameters, the first step of execution of budget is distribution of the grants. The finance department is required to communicate to the heads of departments the grants placed at their disposal under various heads of account during the

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budget year. Copies of relevant demands for grants which as already mentioned, gives all the required details and form basis of the appropriation act after these are passed by the legislative assembly should be enclosed to such distribution of grants orders. While doing so the finance department is required to draw specific attention to: -

01. the amounts if limited or reduced by the legislative assembly (such a situation hardly arises because if it does, it means fall of the government of the day); and
02. the items of new expenditure for which appropriation has been authorized by the legislature so as to facilitate issuance of administrative orders for implementation of such items of new expenditure.

6.2.4. On receipt of above information, the head of departments or budget controlling officers should make further distribution of funds among the drawing and disbursing officers working under their control. For this purpose the proforma given as **EOB form 01** should be used. While making distribution of funds at this level the following guidelines should be followed: -

01. Process of distribution of funds should be completed as early as possible and in any case it should be made before close of month of April every year.
02. Allotment of funds for charged Items of expenditure should be separately indicated from the items, which are voted.
03. While making distribution of funds complete classification of accounts right from major head of account down below to the object of expenditure should be clearly indicated.
04. Funds available under an object of expenditure may be distributed as a whole or a portion thereof kept as reserve. The later course may be found more pragmatic, as this will ultimately help in exercise of a better financial control over the subordinate officers.
05. Distribution of funds may not be made in respect of such of schemes/programmes for which head of the department proposes to retain the entire appropriation and incur the expenditure centrally for the department. Such an action should however, have sufficient justification and should be taken for recorded reasons.
06. Any increase or reduction subsequently made in a grant or a part thereof by the competent authority through an act of reappropriation or by obtaining supplementary grants etc needs to be communicated to the concerned drawing and

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disbursing officers immediately after such decisions are taken and orders to regulate them are issued.

07. In order to exercise itemized control and for better expenditure planning, funds available under an object of expenditure may be sub-divided for example, funds under office expenses may be divided between postage, contingencies etc. Such distribution of funds will constitute only an "Order of Allotment" and so long as it remains within overall availability of funds no sanction of any authority is required to make such distribution or even to change it from time to time. Order of allotment does not constitute an appropriation, which is authorized by the legislature and watched by the comptroller and auditor general of India on its behalf.

08. In order to enforce economy in expenditure the government may sometimes order economy cuts. Such cuts may be specific or these may be general cuts. The cuts thus, made should be kept in view while making allotment of funds.

09. Under certain heads of account minus entries also appear which are on account of credits such as recoveries under suspense heads or the amounts transferred from one major head of account to another, i.e. on account of establishment costs in case of public works department or recoveries made under a capital major head relating to a trading activity and the like, because gross amounts are included in the appropriation act in respect of such transactions. Actualization of envisaged recoveries/credits have also to be watched and it will be helpful if target for making of these recoveries are also fixed for drawing and disbursing officers while making the allotment of funds.

6.2.5. The allotments made should be recorded in a register termed as "Register of Grants and Appropriations" to keep a note of availability of the original grants, their distribution among subordinate officers and modifications if any, made therein from time to time. This register should be maintained on **EOB Form 02.**

6.2.6. Copies of the allotment orders should invariably be made available to the concerned treasury officers to enable them to exercise budgetary control from the treasury. Similarly, copies of these orders should be given to the accountant general who will need these for conduct of appropriation audit.

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6.2.7. Once the budget allotments are received by the drawing and disbursing officers they should open a budget register for recording details of such allotments made in their favour or as these may be modified from time to time by the competent authority. This register should also be used to record expenditures against the budget allotments in respect of different heads of accounts. The expenditure details need to be recorded in this register on monthly basis from different basic accounting records. The idea being that the actual position with regard to net availability of funds at the end of the each month is easily ascertained. The register should be maintained in **EOB Form 03.** Separate pages should be opened for different minor and sub heads under operation with a drawing and disbursing officer.

6.3.0 Control over expenditure- General

6.3.1. Control over expenditure against sanctioned budget allotments has to be exercised at various levels as under: -

01. Drawing and disbursing officer
02. Controlling officer/Head of the department
03. Administrative department
04. Concerned Treasury
05. Office of the Accountant General
06. Finance Department

6.3.2. It is important that implementation of the budget should start immediately after the allotment of funds is made so that various targets both physical and financial as envisaged in a budget are accomplished within the year to which it relates. Any unexplained deviations from the approved target is taken as a financial irregularity for such administrative action as circumstances of each case may call for.

6.3.3. Incurring of expenditure against budget allotments has to be kept within the powers allotted to the functionaries at various levels. It is also subject to certain general conditions or those prescribed for the purpose through a special order(s) issued by the competent authority. The general conditions for incurring of expenditures against budget allocations are: -

- allotment are spent on the purpose(s) for which these have been granted;
- an allotment is not utilized for any item of expenditure which is not covered by sanction - general or special;

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- allotment for charged items of expenditure are not appropriated to voted expenditure or vice versa, ; and
- no expenditure is incurred on the items for which allotment of funds has been specifically refused.

6.3.4. Sanction of the competent authority to the incurring of expenditure remains valid until the funds necessary to make the sanction operative have not been refused. Thus, obtaining of sanction as also appropriation is necessary before the expenditure is incurred. The sanction may be term sanction or perpetual sanction. In case of term sanction it is necessary to get it extended at the expiry of its original term before further expenditure is incurred. In such cases appropriation, has also to be arranged. As regards perpetual sanctions, the only requirement is to obtain funds before expenditure is incurred.

6.3.5 As a matter of principle the claims against government should be settled as and when these arise. Accumulation of liabilities does not reflect a sound financial management. Under certain circumstances, it so happens that some liabilities remain unsettled at the time of close of the financial year and are carried forward to the following year. The liabilities thus, carried forward become a first charge on the subsequent years budget. An appropriation made available to the head of the department or to a subordinate officer is supposed to take care of past liabilities also.

6.3.6. An appropriation is operative upto close of a financial year when any un-spent balance lapses and is not available for utilization in the following year. After close of a financial year on 31st of March all the transactions pertaining to that year, which have remained unsettled, are treated as pertaining to the following year. Bonafide transfer entries necessitated due to corrections etc. in the accounts are allowed to be made even after 31st of March till such time the accounts remain open and are not finally closed.

6.3.7. The sole aim of the procedure prescribed for distribution of grants and prescribing of pre-requisite of sanctioning of expenditure is to ensure quick, effective and judicious implementation of the programmes budgeted for. This is particularly true for implementation of plan programmes envisaged in the budget for the year. Any delay in taking up of such programmes disturbs the targets set for the development planning process. The time overruns have to be avoided as far as possible. In order to ensure the delays are reduced, the government functionaries at various levels are given

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wide financial delegations particularly in respect of sanctioning of plan schemes. Under the present arrangements the plan programmes relating to the development of a district are specifically identified. For speedy implementation district headquarters are made focal points for sanctioning, implementation, monitoring and evaluation of such programmes. District development commissioners are given wide powers to accomplish this objective. Moving a step further in this direction even cabinet meetings are held at district headquarters for sanctioning the plan programmes, which are not within the authority of a district development commissioner. (J&K experience).

6.3.8. As mentioned earlier, execution of the budget involves all levels of administrative set up of the state. At the apex the finance department has to play its role and so is the case with the gross root level of the administration. Role of every agency at every level is vital and any laxity in this behalf can have its own repercussions, which can even be serious at times. In this context, it is very essential that expenditures are kept under a constant review so that it becomes easy to apply correctives as and when needed. This review is termed as control over expenditure. The best possible control over expenditure can be achieved if all the concerned authorities watch the expenditure as it occurs and compare it constantly with grants which are available for the purpose. Requirement of expenditure control at different levels cannot be the same. The system of control over the expenditure at different levels of administrative set up is described hereunder: -

6.4.0. Control over expenditure by drawing and disbursing officers

6.4.1. There are two types of drawing and disbursing officers operating upon a budget, namely: -

- civil officers making drawls from the treasury through detailed bills. Different formats are used to meet requirement of making drawls from the treasury for different inputs of expenditure, and
- chest holders who operate on the budget through the treasury using cheques. The officers using cheques belong to different wings of public works department, power development department and forest department. In case of some civil departments who have their own works implementing agencies, drawls are made through detailed bills like other drawing and disbursing officers of such departments.

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6.4.2. In both the dispensations the detailed accounts in respect of expenditures upto the lowest tier of classification are maintained for the time being by the state accountant general. In case of civil drawing and disbursing officers the accountant general is given the basic accounting details along with vouchers etc. by the treasury officers with whom such drawing and disbursing officers are kept in account. The cheque drawing and disbursing officers render such accounts to the accountant general directly at the end of each month in accordance with the rules and regulations prescribed for the purpose in the public works accounts and forest account codes. The cheque drawing officers who draw the money required for various purposes in lump sum through cheques are therefore departmental chest holders and to that extent operate as treasury officers in their respective offices and render detailed accounts with supporting vouchers etc. directly to the accountant general.

6.4.3 With the above background it becomes necessary for a civil drawing and disbursing officer to give complete and correct classification on the bills which are presented by them at the treasury while operating on the budgetary allocations made in their favour by their respective controlling officers. The classification memo should be prepared as per **EOB Form 04.**

6.4.4 It is equally necessary that upto date record of expenditure against a budget allocation is also maintained by a civil drawing and disbursing officer so that it becomes easy to keep the expenditure within the authorized budgetary allocation. This budget control register should correspond to such control registers maintained at the treasury to facilitate periodical reconciliation. It can be maintained in **EOB Form 05.**

6.4.5. As pointed out earlier the cheque drawing officers operate upon the budget by making lump sum drawals from the treasury through cheques. Such officers being chest holders operating as treasury officers in their respective jurisdictions also need to exercise control over expenditure viz-a-viz budget allocations made to them by the competent authority from time to time. For this purpose therefore they should also maintain budget control register in the prescribed proforma EOB Form 05.In order to facilitate the budgetary control over such drawing and disbursing officers they should enclose a schedule to the cheque as and when presented for making of drawls from the treasury: This schedule should be drawn on **EOB Form 06.** In this manner the concerned treasury officer will be in a position to

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ensure that the cheque drawing officers incur expenditure within the budgetary allocations made in their favour from time to time.

6.4.6. The drawing and disbursing officers should at the close of each month reconcile accounts of expenditure against budget with the treasury records in accordance with a predetermined procedure.

6.4.7. A consolidated statement of expenditure against the budget allocation in respect of every head of account should be drawn at the close of every month for submission to the controlling officer. Such an account statement should invariably be supported by a treasury document authenticating the details of expenditure. This occasion needs also to be used to find out behaviour of the budget through the process of working out anticipatory saving or excess for appropriate action. No savings should be held back as reserve for possible future excesses not covered by the allocations for the year. Copies of these expenditure accounts also need to be forwarded to the controlling officer within a maximum period of seven days of the month following that to which these relates.

6.5.0. Control over expenditure by controlling officers:

6.5.1. In order to watch receipt of returns prescribed for drawing and disbursing officers, the controlling officers must maintain a broad sheet in which every drawing and disbursing officer will be allotted a serial number. This broad sheet will also provide 12 columns for individual months of a year against each serial number. Receipt of returns pertaining to every month will be registered in the relevant column. In this manner, the broad sheet will bring out the defaults in receipt of return from the drawing and disbursing officers for quick administrative action.

6.5.2. On receipt of the returns the controlling officer will examine these carefully and satisfy himself that the: -

01. accounts classification recorded in the returns is correct,
02. the progressive totals of the expenditure have been correctly noted,
03. that the expenditure to the date is within the available grants,
04. the quantum of savings/excesses if any, indicated in the return have been reasonably worked out.

6.5.3. When the returns of all the drawing and disbursing officers have been received and examined, a monthly compilation and reconciliation sheet should be prepared by the controlling officer.

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Separate sheet shall be opened for every head of account on **EOB Form 07**. These sheets indicating the total expenditure incurred by every drawing and disbursing officer as also by the controlling officer himself will form basis for reconciliation of accounts with the books of the accountant general of the state.

6.5.4. In addition to above, a controlling officer is supposed to observe the following general guidelines: -

01. The outlay under a head is utilized proportionately as far as possible during a year. This is particularly necessary in respect of fixed expenditure. Any disproportionate expenditure, which comes to notice, must be investigated for such action as may be deemed necessary.

02. Anticipated savings if any, should be immediately surrendered to government without waiting till end of the year. No savings being be held in reserve for meeting any likely future excesses. The money should not be spend in haste just because funds are available which if not utilized will lapse to the government. Rush of expenditure at the close of a year should be avoided.

03. Need for additional funds may arise due to some unforeseen emergency, under estimation or due to any other factor. Under such circumstances, immediate action should be taken to obtain additional funds. It may be noted that the simple fact that an application for additional funds has been made is not sufficient to exceed the original allocation. Unless the additional funds are provided by the competent authority no additional expenditure should be authorized or incurred.

6.6.0. Control over expenditure by administrative/finance department

6.6.1. The function of the administrative department of the government in respect of control over expenditure is supervisory. It is not considered desirable that they should assume any of the direct responsibilities, which are prescribed for controlling and drawing and disbursing officers. These departments can however, take such action as may be necessary to check extravagance or excess over allotments.

6.6.2. The finance department apart from exercising control over expenditure is also responsible for maintaining adequate cash balances with the treasuries. Similarly, this department is required to perform the function of controlling the financial aspects of central

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state financial relations. In order to enable discharge of these duties, the department is required to maintain the accounts and develop the required data bank in accordance with the procedure laid down for the purpose. In this exercise the accountant general has an obligation to render all assistance to the finance department as per requirements from time to time.

6.7.0. Budgetary control at Treasury:

6.7.1. Treasury is the focal point for government's financial transactions and it, therefore, provides sufficient data for evolving and enforcing a sound budgetary management system. Budgetary control can be exercised very effectively from the treasury because all the data required for the purpose is generated here while the budget is under implementation. Efficiency of budgetary control from treasury is dependent upon pertinence and regularity of flow of information. In order to reach this goal, it is necessary to have sufficient clarity with regard to various aspects of this control like contents of the budget, its controlling officers, implementing agencies, means of communications etc.

6.7.2. The state budget, as approved by the legislature has to be the only authentic and lawful document for incurring of expenditures, which has to incorporate, in it its meticulous details. Strictly, speaking, expenditure of not even a penny can be incurred by the executive except on the purpose(s) for which is identified and granted by the legislature. Making of lump sum provisions, which has to be avoided, has unfortunately, become a routine in the process of budget formulation particularly on the plan side. Making of such a pre-budget exercise, which will eliminate need for making lump sum provisions, has its own limitation. Yet every attempt has to be made to bring in maximum transparency in the budget, so that full details, with regard to envisaged programmes and activities together with their basic inputs under a function becomes available to the implementing agency as early as possible after commencement of a financial year to which a budget relates. In case the budget is not a true reflection of all the activities, control over it is rendered difficult and will not be meaningful. Accomplishment of this objective, broadly speaking, should not be difficult. The development programmes are either, on-going or new programmes. In case of ongoing programmes, financial estimation of the required inputs is always available. It may be difficult, to determine expenditure inputs in detail, with sufficient degree of accuracy in case of new programmes, nevertheless there has to be a forecast in this area

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also because, without that determination of an outlay, will be absolutely adhoc, not conducive to budgeting by the state. Keeping, the present scenario in view, it is high, time that determination of financial estimates in respect of various inputs for a developmental programme is made a pre-budget exercise, linking it at the same time to the prescribed pattern of accounts classification which in any case, has to be uniform both for plan and non plan financial transaction of a government and that also at the national level in accordance with constitutionally backed guidelines prescribed by the comptroller and auditor general of India from time to time. Separate, and divergent systems of classification, for plan and non-plan activities cannot be followed for it will render coordination difficult. After all, pattern of classification, prescribed by the comptroller and auditor general, common to both plan and non-plan activities is a well thought plan having legal sanctity. It has to be followed for every sound-financial management.

6.7.3. **Budget Controlling Officers**: - The finance department should declare a list of such officer who shall communicate allotment of funds in favour of various drawing and disbursing officers to the treasury, under different heads of account. The administrative departments including the planning and development department should have no authority to multiply this list at their own will. A list of controlling officers as also drawing and disbursing officers can also be incorporated in the "Demands for Grants" as presented to the legislature for obtaining approval to the state budget and passing of budget laws every year. This will help in ensuring authentic availability of such details to everybody connected with implementation of the state budget.

6.7.4. **Communication of budget allocation to the Treasurer**: - The pattern and the format to be used for the purpose should be uniform and classification/computer friendly. Budget communication orders form the foundation for the structure of the required budgetary control. The format to be used for the purpose is given in **EOB Form 01**. The budget communication in this manner through notified controlling officers alone should be entertained at the treasury.

6.7.5. **Tremendous Misclassifications**: - Wrong accounts classifications distort picture of government accounts, which can even lead to trouble in settlement of accounts. Classification on the bills or other instruments presented at the treasury for making of drawals or depositing revenues has to be recorded distinctly through

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classification memos and any deviation in this regard should result in dishonouring a claim by the treasury.

6.7.6. **Chest holders**: - In the treasury accounts, every transaction of these officers are temporarily classified under the suspense head "Remittances" which is eventually relieved in accountant general's office where the transaction is taken to the relevant head in the government accounts. Although, a memo indicating budget allotment and the accounts classification is attached to every cheque presented by a chest holder at the treasury, yet it has been found that this memo does not serve the required purpose of allocating the expenditure to the relevant head of account.

6.7.7. The chest holders render accounts to the accountant general at monthly intervals. These accounts interalia, include a statement of budget allocations, and expenditures incurred there against. Immediately after an account is submitted to the accountant general by a chest holder, a copy of that component of this account which relates to adjustments made against 'Remittances' head should be given to the treasury as well, where it should be linked to the treasury records & verified.

6.7.8. Once, the budget allotment orders with adequate details as envisaged are received, bills and other instruments presented with all the relevant account classification details and detailed account statement of the chest holders linked to transactions recorded under "Remittance head", it will be possible to maintain Budget Control Register with accuracy, to serve as an effective tool for enforcing a sound and systematic budgetary control. This register in fact, will be a ledgerised account of each officer in account with a treasury, reflecting at any point of time budgetary allocations available with him, transactions recorded there against and the balance left to reach the targets. Apart from meeting the objective of watching budgetary performance of the individual officers through these details, the budget control register shall also enable generation of the required data in a desired fashion for working out of returns to be eventually used for understanding and interpreting the accounts of the government as a whole. The budget control register has, according a twin purpose namely: -

01. Itemized control over various budgetary inputs and outputs in respect of the officers in account with the treasury so as to watch their operations within the indicated budgetary ceiling.
02. Enable making of returns on the basis of the data available in the register to create an over all managerial account for

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the government activities in their totality. It has been given this name because it will not be a substitute for the accounts complied by the accountant general which as already started earlier shall have to continue for various legal and other considerations.

6.7.9. The structure of budget control register for the civil and cheque drawing officers will vary to the extent that in the former case recording of expenditure against budget allocations will be direct and in the later it will have to be done at the close of a month. Initially, the transactions of the cheque drawing officers, will be watched in totality through "Remittance head" as and when these take place. Composition of these two types of budget control registers is described as under: -

1.0 BCR for civil departments: - It will have three parts as under: -

Part-I Recording general information relating to drawing and disbursing officer, his department, budgetary controlling officer, account heads operated upon with code numbers needed for any future reference.

Part-II Recording budget allocation made to a drawing and disbursing officer for various activities under a function during a year with supplements/reductions, if any, separately for non plan (NP), state plan (SP), district plan (DP), externally aided projects (EAP) and central plan (CP).

Part-III Recording day to day expenditure under each object of expenditure account head.

2.0 BCR for cheque drawing officers: - It will also be in three parts as under -:

Part-I, indicating general information about the cheque drawing officer for future reference.

Part-II, total budget allocation made to a CDO and expenditure there against with out relating it to the programmes, activities or objects of expenditure. It will be seen that in part II provision has been made for recording unspent budget allocations brought forward from previous year because cheques issued by CDOs at the close of a year are generally presented for payment at the treasury in the subsequent year at least upto end of the month of June.

Part-III recording total expenditure during a month whether drawn from the try or made by accounting

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adjustments based on monthly account return submitted by a CDO to the treasury officer. This part III will, however, be finalized only after it is linked to part II in respect, of the cheques drawn during a month.

6.7.10. The formats of the Budget Control Register as discussed above are given in budget Forms **EOB 08 and 09.**

6.7.11. **Expenditure control in respect of the transactions for which budget allocation is not made:-** These transactions fall under loans and advances and other accounts under public account like un-funded debts, reserves, deposit and advances, suspense accounts, remittances, and cash balances. Expenditure ceilings in the form of budgetary allocations are not applicable to these kinds of transactions. Therefore, these transactions are not susceptible to any budgetary control. In case of transactions falling, under deposits and advances the ceilings are, created within the treasury through contra adjustments which have necessarily to be watched. This is done with the help of deposits and advance register, opened and maintained at the treasury.

6.7.12 **Use of treasury data to produce government's managerial accounts**:- Presently, the government accounts are compiled by CAG. For this purpose the treasuries render various returns supported by detailed vouchers to the state accountant general within a defined frame of time. By and large, this prescribed time table is followed by the treasury and all the detailed returns, etc for a month become available to the accountant general by 10th day of the following month. In view of this, it should be possible to bring out monthly civil accounts and other annual accounts, which are supposed to be compiled, promptly. This does not, however, happen for various reasons and these accounts become, available much after the event. One of the important factors, for such a delay is that reconciliation of expenditure and receipts is not made by the departmental officers with the accountant general's office as per prescribed schedule of time. Compilation also falls in arrears, because of tremendous increase in the volume of the transactions, difficult to be handled centrally by one agency. In order to meet constitutional obligation the departmental accounts received by the accountant general through treasury are incorporated in most of the cases without reconciliation. This fact, coupled with inadequate (some time even wrong) accounting classification recorded on vouchers leads to misclassification of transactions and the present

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belief is that this menace has assumed alarming proportion. Thus, the accounts returns produced by the accountant general do not serve the managerial requirements of the government and have assumed only a historical purpose. Whereas, the present system, of rendering accounts to the accountant general may have to continue as its discontinuation and take over of accounting function by the executive has its own ramifications, legal, financial and administrative which need a detailed study. It is however, necessary now that some via media is found to evolve and monitor government account with managerial orientation involving least additional effort and cost. This can be done by making the optimum use of the data available from the treasury in its budget control registers, madwars, and lists of payment and cash accounts.

6.7.13. Since drawing and disbursing officers have constant dealings with the treasury, it will be feasible to develop a scheme, for their codification on scientific basis.

6.7.14. It should not be difficult to monitor receipt and expenditure of the various departments from the returns of the treasuries and their consolidation to cover the financial operations of the state as a whole. The following returns can be worked out by the treasury within a maximum of five days after the last date fixed for submission of accounts, to the accountant general.

01. Abstract of revenue receipts in the treasury drawn from the monthly cash account.
02. Abstract of expenditure on the basis of the budget control register
03. Abstract of receipts and disbursements in respect of individual functional heads of account falling under public debt, loans and advances, unfunded debts and other heads under public account.

6.7.15. These returns received from the treasuries in the set of proforma's given as **EOB 10 – EOB 18** shall be consolidated at the apex in the finance department through a nucleus budget monitoring cell who can, thus circulate the consolidated managerial accounts at pre-determined periodical intervals. The consolidation of the accounts at the apex will undergo the following processes: -

01. Returns received from mufasil (Sub) treasuries shall be consolidated into an account for the district.
02. The account of the districts compiled as above shall be consolidated separately for Jammu & Kashmir divisions.

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Kashmir will include Ladakh and Kargil districts for which a separate set of these accounts would be evolved.

03. The divisional accounts, thus, worked out shall be consolidated to make the account for the state as a whole.

6.7.16. In this way, the accounting data based on transactions originating at the treasury and thus authentic and dependable, reflecting a comparison between budget and actuals, shall be available at the apex for the state, broken into districts as also between non plan, state plan, district plan, externally aided projects and central plan shall be readily available in respect of every month during a year and can be used for various requirements as may be identified or which may arise as a result of administrative exigencies.

6.8.0. Cash management for budget implementation:

6.8.1. The cash management has two basic aspects, namely;

- drawing of ways and means forecasts and,
- making of resource arrangements.

6.8.2 Broadly, the ways and means involves determination of cash availability and identifying the steps needed to manage the gap between the cash inflow and outflow during the forecast period or to invest the surplus cash, if any, during such periods to yield optimum returns ensuring at the same time their easy retrievability. Resource arrangement on the other hand, is a system where by total cash availability worked out through ways and means exercise is distributed among government treasuries enabling these to meet their local demands.

6.8.3 Responsibility for doing this exercise is that of the finance department who have to be assisted in this behalf by the controlling officers because they are in the best position to know the period in which a particular item of receipt pertaining to a department will be realized or a particular payment will be made.

6.8.4 Every system of making ways and means exercise by the finance department, essentially involves: -

01. determination of the forecast period in a year,
02. identifying the authorities in the government's administrative setup to be involved in making the forecast,
03. methodology to be followed for working out the forecasts, and
04 interpretation of the forecasts for determination of the gap &

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surplus, if any.

6.8.5 **Determination of Forecast periods:** - Forecast period in relation to the ways and means exercise is that portion of a budget year in respect of which estimated inflow and outflow of the cash under various budgeted programmes is worked out with the objective of reducing the element of their uncertainty and also making it possible to closely watch their actualization. Duration of this period can obviously, be decided on the basis of the previous experience of the behaviour of the budget estimates projected for a year, broken into various periods. It equally depends upon the financial health of the state during a particular year. Sound financial position enables fixation of longer ways and means forecast periods. On the other hand, financial crunch will certainly call for going in for smaller forecast periods. Pattern of budgeting followed in the state has also a close bearing on deciding such a forecast period. Because of various constraints both administrative as also financial, it some times becomes necessary to make lump sum provisions in respect of various budgeted programmes. This is particularly true about plan developmental outlays and some non-plan expenditures like making of provision for likely increases in the salary and wage structure of the employees. These lump sum provisions are broken into details under various expenditure inputs at different stages of budget implementation during a year. All such situations can vary from time to time, and therefore, ways and means forecast periods cannot be fixed permanently as a rule. Review of the forecasts may have to be made even during currency of a forecast period so as to account for unforeseen and unpredictable elements of receipts and expenditure. Generally speaking, a quarter in a year broken into monthly periods is taken as a reasonable forecast period in a developing economy where realization of receipts is full of uncertainties and expenditure incurring dependant upon number of physical & financial constraints

6.8.6 **Authorities to be involved in Ways and Means forecasting**:- Immediate responsibility for successful implementation of the budget rests with the controlling officers, declared as such by the government from time to time. The list of these officers can decrease or increase with deletion of the completed schemes and addition of new programmes in the budget of a financial year. In order to have ready information about these officers the finance department may link them to the various programme heads of account and incorporate their details in the demands for grants as presented to the legislature from year to year. It will facilitate identification of a controlling officer in respect of a head of account

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with reference to the demand for grant relevant to his department. The controlling officers may be grouped for various budget programmes as under: -

01. For non-plan, state plan and state level externally aided programmes, centrally sponsored schemes or central plan schemes....**Head of respective functional department**
02. For district plan, including district level externally aided programmes, centrally sponsored schemes or central plan schemes.... **District Development Commissioners**
03. For interest pensions, internal debt of the state, loans and advances from the central government, unfunded debts and other accounts grouped in the section public account of the budget.... **Finance Department in the resource section**.

6.8.7 It may be cumbersome to deal with all the controlling officers individually for purposes of the cash management, which involves collecting of data/information almost constantly through out the year. These officers could, therefore, be grouped under various administrative departments where the services of the financial advisors & chief accounts officers (FA and CAOs) could be utilized to collect and consolidate the forecasts received from respective controlling officers. The FA and CAOs being representative of the finance department can be given this responsibility and asked to submit the returns of ways and means forecasts to that department as and when called for. Involvement of the FA and CAOs should, however, be restricted to (01) above only. The developmental programmes at the district level taken up either as a part of district plan or as EAP or centrally sponsored schemes are under better control of the district development commissioners coordinated by the planning and development department. Ways and means forecasts prepared by the district development commissioners could be consolidated by the said department who will in turn report to the finance department. In respect of the heads of account controlled by the finance department directly or through its heads of departments, the forecasts should be consolidated and processed for final adoptions by its resources division. The information/data from various quarters shall have to be consolidated at the apex in the finance department (resource division) so that ways and means forecast for the state as a whole becomes available.

6.8.8 The flow of information/data for ways and means forecasting as mentioned above, may be described as in the following chart:

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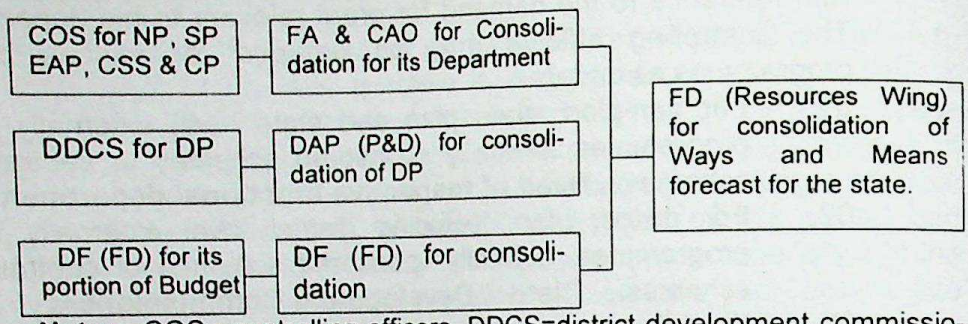

Note:- COS= controlling officers, DDCS=district development commissioners, DF=director finance, FA and CAO=financial advisor & chief accounts officer, DAP= director area planning, FD= finance department, P & D=planing and development department.

6.8.9 Flow of information from one quarter to another can be made quicker and may with the help of computers.

6.8.10 **Methodology for working of ways & means forecast**: The forecast has to cover every activity involving finances i.e, receipts as also disbursements as provided for in the 'consolidated fund' and 'public account' sections of the budget of a financial year. Since objective of the cash management is not maintenance of accounts, it is not necessary to follow budgetary classification strictly, though it can provide means to identify expenditure requirements under various important 'inputs' to facilitate development of a plan to spread these over the year keeping in view the various cash resource constraints and programme implementation requirements. It will not, thus, be necessary even to maintain distinction between revenue and capital expenditures as is the requirement for budget formulation and account maintenance while preparing a ways and means forecast, which in essence is an exercise to arrive at cash inflow and outflow during a forecast period within the over all budgetary ceilings for a financial year as a whole. In view of this, it will be expedient to categorize the various budgetary inputs as 'fixed' and 'variables' separately for non-plan and plan programmes and activities.

6.8.11 The 'fixed Inputs' are by and large expenditures relating to administrative and supervisory aspects of the governance and can, thus, be evenly distributed over different months of a financial year. 'Variable inputs', on the other hand are such budgetary commitments which are not evenly distributable, but can arise at different times depending upon various considerations, like availability of working periods, PERT and CPM charts of major

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works and projects, finalization of contracts, availability of required materials etc. and above all, examination and sanctioning of the programmes and the activities under valid orders of the competent authorities at various administrative levels, more so because in the system of public finance availability of appropriation alone is not an authority for incurring of expenditures, which have necessarily to be backed by the competent sanctions.

6.8.12 In order to make forecasts in respect of 'fixed' and 'variable' inputs more realistic, it will be necessary to work out these separately for non-plan and plan budgeted programmes and activities. Whereas "non-plan" estimates are provided in the budget with full details, such details in respect of plan estimates continue to be in the process of settlement even after the budget is presented and approved by the legislature. These are generally settled in the first quarter of a financial year, particularly in respect of district plans which have to be approved by the district development boards. Ideally, the state budget should be an action plan with full transparency about the various expenditure inputs whether plan or non-plan. Finalization of details of plan outlays should be a pre-budget exercise. Making of lump sum provisions if at all necessary should be resorted to only in very rare cases. The plan outlays, in essence, have, either to be in respect of 'ongoing programmes' or for the 'new programmes'. 'Ongoing programmes' are committed expenditure on the total plan, be it state, district or centrally sponsored sectors. That being so, details of expenditure commitments in respect of such programmes are known and can be easily anticipated for the ensuing financial year in respect of which a budget is prepared. By and large, these details are also backed by appropriate sanctions. It may be under very exceptional circumstances, that decisions may have to be taken to abandon such programmes or curtail expenditures thereon due to various reasons, still such decisions can easily be a pre-budget exercise. Outlays for 'new programmes' have also to be worked out at least in broader details, because financial requirements have to be worked out and provided for in the budget. Every attempt has to be made to get the new programmes drawn, examined and sanctioned by the competent authority before commencement of a budget year. All these processes of plan finalization have to be completed within a well defined time schedule to be evolved jointly by the finance and planning and development departments, keeping in view that budget presentation and its passage for obtaining an eventual budget law from the legislature has, in any case, to be accomplished by end of March of the year preceding that to which the budget relates. In this

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background block provisions have to be made only in rare cases. In actual practice, it has been seen that the details of plan outlays are worked out by the controlling officers and made available to the planning and development department while the state budget is under compilation in the finance department. Such details are also discussed and settled at least in case of 'ongoing programmes', `new programmes` alone being left to be decided separately, In fact such details are worked out in respect of the basic expenditure inputs, like salaries, travel expenses, works, land acquisition etc. in a form (GNO) prescribed for the purpose by the planning and development department. In view of this also, making of the state budget as a perfect action plan should not be a difficult process. Once, this is done, it will ensure not only, implementation of the developmental programmes right from the beginning of every financial year but will also go a long way in drawing a ways and means budget with reasonable degree of accuracy reducing the element of distortions, otherwise, caused by uncertainties in respect of plan provisions. While, visualizing these short comings, in the past (Sept. 1970) a 'special procedure for adoption of plan provisions and inclusion of details in the budget' was prescribed by the J&K state government as a part of Kashmir budget manual. The main features of these special instructions, are briefly mentioned as under: -

01. The planning and development department will every year by 15th of October, obtain annual plan proposals from the administrative departments on the proforma prescribed by them from time to time with the objective of bringing out achievements made under the particular schemes and targets for the ensuring year. These proposals will not be budget proposals and shall be submitted to planning and development department only.

02. The annual plan proposals as at (01) above will be examined by the planning and development department who will also get these approved by the council of ministers and submit the same to the planning commission, by end of October.

03. The budget proposals for committed expenditure i.e. expenditure on sanctioned plan schemes and its inputs shall be submitted to the finance department as part of regular budget proposals by November 15, who will examine and adopt these subject to the eventual clearance of the planning and development department.

04. After discussion with the planning commission, the planning and development department will convey, if possible by December 10th to the departments, the amounts available

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for expansion for various plan schemes, giving them sufficient time for finalization of details of these expansion provisions with the approval of the competent authority(s) under the guidance and the supervision of the planning and development department. This will enable the finance department to incorporate the required details in the state budget. Where, however, such details do not become available due to certain reasons, block provisions will be made to be operated upon, with the approval of the competent authority.

6.8.13 This special procedure needs to be revived with such modifications as may be considered necessary by the finance and the planning and development departments as that alone can make the state budget a meaningful exercise providing a sound base for formulation of ways and means forecasts so essential for successful implementation of various thoughtfully budgeted programmes and activities.

6.8.14 For the sake of convenience, the 'fixed' and 'variable' inputs to regulate expenditure forecasts as a part of ways and means exercise may be adopted and utilized as under: -

1.0. Fixed inputs:

01. **Establishment costs**: There are more or less fixed charges comprising salary, travel expenses, motor vehicles, office expenses, RRT(rent, rates and taxes), and other such items necessary to run and manage an office. Apart from being fixed in nature, these also, by and large remain uniform in all the months of a year and may be distributed accordingly.

02. **Maintenance and repairs**: The maintenance and repairs of the assets has to follow predetermined norms and a detailed works programme drawn for the purpose by the controlling officers in respect of their departments. The expenditure can therefore, be phased out depending upon the working seasons in a region of the state.

03. **Interest payments**: These are always predetermined and can be phased out according to the terms and conditions of the debts in respect of which such payments have to be made. Generally speaking, the interest payments may be planned to be made in the last quarter of the year. In case of unfunded debts these can even be made in the last

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month of the year. Interest on bank loans market borrowings and institutional finances is payable according to the already envisaged date and mode of payment and should be accordingly provided for.

04. **Pensions and other retirement benefits**: These can be easily spread through out the year on monthly basis.

05. **Repayment of debts**: These have also to be regulated according to the terms and conditions attaching to every debt and can be phased according.

06. **Investments**: The investments are generally to be made in PSUS and other autonomous organizations and are by and large regulated causing expenditure on quarterly basis.

07. **Grants-in-aid and contributions**: These are payable to the local bodies and other non-government organizations like educational institutions, medical assistance units social welfare centers and the like in accordance with the rules and regulations governing each such grant-in-aid. The concerned administrative departments should draw a schedule of payment of such assistance and on that basis built their forecast of cash outflow on this account.

2.0. Variable Costs:

01. **Works**: Constitute a major portion of the budget of a year. There can be minor works or major works executed departmentally or through construction agencies. Every work included in the budget has its own gestation period and it is highly essential that such periods are controlled with adequate care as otherwise there are likely to be cost over runs which adversely affect originally envisaged features of the work and benefits accruing there from to the economy of the state. It is, therefore, necessary to plan implementation of works well in advance of the commencement of a financial year. Determination of different stages of completion of works with their financial costs during a financial year has to be the responsibility of a controlling officer. On these factors it is, therefore, possible to anticipate expenditure requirements of the works during different periods of a year. Such planning will interalia, include material

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management, arrangements for machinery and equipments, award of contracts etc. Particular care needs to be taken in anticipating payments as may be required to be made for land acquisition. It needs to be ensured that funds are not unnecessarily blocked while settling acquisition of land.

02. **Materials and supplies**: Requirement of materials and supplies will vary from month to month depending upon the requirements of the function(s) under implementation with a controlling officer. These will not, however, relate to works, in which case, such requirements form part of works expenditure. Procurement of the materials has to be a well-planned arrangement involving determination of the requirement, identifying the supply source and the period of supplies. All these indicators should enable the controlling officer to phase out spending of funds available during a year. Material for various controlled trading activities should be procured under a carefully drawn plan, because these generally involve heavy payments like those paid to FCI and other similar agencies. Any slightest carelessness on this account can seriously affect the ways and means position of the state.

03. **Machinery and equipment:** Like materials and supplies, the expenditure on machinery and equipment has also to follow a predetermined plan of procurement which can help in anticipating expenditure during different months of a year.

04. **Wages:** Expenditure under wages covers daily rated workers (DRWs) who are both regular and seasonal/ casual. Wages payable to regular DRWs can be easily spread over different months of the year. In the other categories of DRWs, the expenditure will be during a particular period of a year to be determined with reference to the requirements of a function for which such labour is engaged.

05. **Cost of power purchased from outside the State**: This constitutes a bulk charge on the non-plan budget of the state and any laxity in planning this expenditure can disturb the whole ways and means position of the state. It has, therefore, to be carefully provided for in the cash outflow forecasts taking

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into consideration agreements , MOUS etc. regulating such expenditures.

06. **Others**: This is a residuary head to accommodate cash outflow forecasts in respect of the items not otherwise provided for.

6.8.15 On the receipts side (cash inflow), the finance department as already pointed out has a vital role to play as they control central state financial relations, raising of institutional finances, market borrowing, other public debt sources of cash inflow, and operation of the account heads grouped under 'public account' besides state tax revenues, control over the governments bank account involving accountal of day to day cash transactions and regulation of over drafts etc. are also important. The heads of account controlled by the finance department constitute significant components of the ways and means forecasting.

6.9.0 Devolution of resources from centre to the state:

6.9.1 Responsibility for settlement of accounts in respect of devolution of resources from centre to the state is entirely that of the finance department. It is, therefore, necessary that detailed and accurate accounts in respect of such transactions are maintained in a manner that it is at any point of time, possible to find out the amounts that are due to and due from the central government. Broadly, these accounts can be categorized as under: -

- Accounts relating to devolution of resources pursuant to the recommendations of the finance commissions.
- Accounts of central assistance for implementation of developmental plans comprising state plans, externally aided programmes, centrally sponsored schemes and central plan progarammes or any other developmental programme brought within the purview of the planning process from time to time.
- Accounts of other central assistance given to the state under some regular scheme(s) or in a special situation with a limited purpose like security related expenditures etc. .

6.9.2 The central assistance is in the form of both grants-in-aid and loan with standard or varying terms and conditions, depending upon the programme(s) or the activity(s) for which such loans are given.

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6.9.3 Indicators for forecasting receipts from and payments to the government of India during a financial year are available. The ministry of finance, indicates to the state government, the amounts likely to be received by them on account of their share in indivisible pool of central taxes as also grants-in-aid under article 275 of the Indian constitution during a year well in advance of the compilation of the budget for that year. Revisions, if any, in such estimates are also indicated. These forecasts are based on the recommendations of the finance commissions as applicable.

6.9.4. In addition to the transfer of resources in this arrangement, financial assistance is also given for implementation of developmental plans, by the centre to the states. Estimates of this assistance are again fixed for all states and also for special category states on the basis of resource exercise made by the planning commission whereby entitlement of central assistance for implementation of state's annual plans is determined every year. Upgradation and other infrastructure grants even if given on the recommendations of the finance commission are in effect treated as a resource for plan financing and expenditure on such programmes form a part of the states annual plan outlay. Similar treatment is given to externally aided programmes. In addition to the states annual plans, the various ministries of government of India are also administering different centrally sponsored programmes. Every such centrally sponsored programme has its own pattern of financial assistance and for fixing of implementing agencies. The central assistance is routed through the state budget. In certain cases, however, it is given directly to the implementing agencies.

6.9.5. Over and above, the non-plan and plan assistance given by the centre to the states, they also get a share in small savings mobilized in the country during a year which also accrues according to a set formula. This resource also flow to the states at pre-determined periodical intervals.

6.9.6 The objective of accounting of the financial transactions between centre and the state is, to watch realization of the forecasts made on this account for a financial year and ensuring its prompt credit in the state government account. The pattern of accounts should also be such which would enable working out of the payments that have fallen due to the central government mostly on account of debt obligations but also in respect of certain adjusting accounts which arise from payment made on their behalf and, thus, recoverable or

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payable because of revenues collected/recoveries made for them. Such adjusting accounts are generally maintained by the state accountant general separately for defence services, railways and others.

6.9.7 The present arrangement for regulating this accounting arrangement is confined to the recording of sanctions issued by various ministries of GOI from time to time in a year and the credit received there against through the official bankers of the state government. This system is obviously inadequate as it does not enable keeping a watch on what is due from the centre or what is the repaid to them during a budget year. In order to streamline the system, it is considered necessary to adopt the following procedure.

01. The responsibility for maintenance of these accounts should be of the resources division of the finance department.

02. Immediately after the budget of a financial year is approved the finance department will open individual accounts of every identified source of flow of funds from the centre to the state.

03. Although the accounts shall be maintained on yearly basis but at the same time these should be arranged in a manner that their position is readily and easily ascertained for the block periods covered by the finance commission and the planning commission respectively for non-plan and plan transfers.

04. Every individual account shall be in two parts - part 1st indicting the amount due during a year and how it has been arrived at and part 2nd, recording period of release, reference to government of India sanction, date of credit to the state's bank account and its transfer to the finance secretary's bank account.

05. Every individual account should be closed monthly or at such intervals as may be prescribed for the purpose with the objective of making a quarterly review of the amounts received, payments due to centre and the payments made. The results of such a review, if considered necessary because of some substantial reasons may also be reported to the government (cabinet) by the finance department.

06. In case of certain accounts, it is necessary to monitor implementation of the programmes for which central assistance is received . Similarly, assistance for centrally sponsored and central plan programmes has to be related to the actual expenditure more so, in respect of such programmes where central assistance is available on re-imbursement basis like family welfare, IWDP etc. It is,

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therefore, necessary to develop an account in every such case in a manner which will depict, assistance received and expenditures booked by the concerned implementing departments/agencies. Such an account, apart from helping in monitoring the expenditures will also enable to arrive at settlements with the government of India.

07. It is also necessary to find out indebtedness of the state towards the central government. This will involve maintenance of detailed individual loan accounts, reflecting opening balance at the beginning of a year, amounts received during a year, repayments that have fallen due, repayments made and interest accruals so that outstanding at the close of the year in respect of the total debt obligation, debts due to be discharged with interest liability is easily worked out.

6.10.0. Control over Institutional Finances and Market borrowings:

6.10.1 Institutional finances are raised from various financial institutions operating at national level. These funds generally constitute a resource for plan and are in the form of loans to be utilized for productive purposes. These are therefore, related to specific development programmes with satisfactory economic viability. The quantum of such assistance to be raised from various financial institutions is determined in the resources exercise made annually by the planning commission and the states are authorized to lift the assistance accordingly. The same procedure is followed for raising of loans from the open capital market.

6.10.2 The institutional finances or the borrowings from the market are predetermined and estimates in respect thereof are accordingly, incorporated in the state budget annually. The period of the year during which such loans are raised is determined by the finance department from time to time depending upon various considerations like favourability of the capital market conditions, preparedness of the financial institutions to advance the loans, obtaining of required sanctions and the like.

6.10.3 The institutional finances are, as already cleared tied up with implementation of various developmental programmes which have to qualify for such type of financing. Therefore, it follows that before expenditure on such programmes is incurred, it is necessary to get these cleared for funding by the concerned financial institutions, so that lifting of the assistance is facilitated. This seldom happens and on the contrary, expenditures are booked without the required

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financial tie-ups, which, obviously, disturbs the whole ways and means position of the government. Such a situation has necessarily to be guarded against and therefore proper accountal of the receipts on account of these loans is essential. It is equally necessary that servicing of these debts by way of repayment of principal amounts due during a year as also annual interest accruals thereon are correctly accounted for, in the same manner in which it is to be done for loans received from central government for various purposes.

6.11.0 Bank account of the state government:

6.11.1 The bank account has to be maintained with the official bankers of the state government. The J&K state has, however, been allowed to maintain its bank account with the J&K Bank Ltd. Some times these accounts are also opened with other nationalized banks to meet various administrative and financial exigencies. The J&K government accounts with the J&K Bank are, however, the main stream bank accounts and these are maintained in two tiers. At the apex 'finance secretary's bank account' is used to regulate over all cash inflow of the government, feeding of treasuries and overdrafts obtained from time to time and investments, if any made in term deposits. This account is built in respect of such of transactions only which originate at the bank at the instance of finance department and do not get incorporated in the treasury accounts as and when these occur. It is done on the account statements received from the official and other banks at periodical intervals, with the sole objective of classifying the transactions under various heads of account for submission to the state accountant general to be incorporated in the government accounts. This account has obviously a limited purpose and does not obviate the necessity of maintaining an additional bank account so that it is possible to arrive at the government's bank balances on day to day basis for regulating feeding of treasuries as also overdrafts along with interest accrual thereon and the investments if any, made from time to time. In this context it may be recalled that the agreement with the J&K Bank, interalia, envisages that:-

- Interest on overdraft has to be worked out after taking into account day to day credit balances if any, held by the bank over and above the minimum interest free retention balance.
- The credits received directly in various bank branches is transferred to the apex account within stipulated period of time otherwise these shall also be liable for interest recovery from the bank at the rates applicable to the overdrafts.

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6.11.2. Maintenance of detailed bank account by the finance department based on their own sources of information becomes all the more necessary to meet the above accounting requirements as otherwise there are no cross checks for ascertaining the correct cash balance available with the government in all its bank accounts and determination of the quantum of overdraft on which interest becomes payable.

6.11.3 The cash transactions of the government originate at various treasuries and also in some designated branches of the J&K Bank. For purposes of maintaining a consolidated bank account of the government, the finance department has to be fed with the required details, from both these sources. Keeping in view the objective of maintenance of the bank account, the finance department has to obtain aggregate figures of total debits and credits raised to the various bank accounts operated by the treasury officers or maintained in the designated branches of the J&K Bank. The debits, in case of designated branches of the bank, shall also include payments made by them on account of pensions and discharging of debt obligations arising from market borrowings and institutional finances. Government has made arrangement with the bank to make such payments as and when needed at their own level. These sources, should therefore, give the following information to the finance department:-

Treasury officers:

1. Opening balance for the day ---------- Dr./Cr.
2. Total credits to the TO's bank account during the day ---------- Cr.
3. Total debits to the TO's bank account during the day ---------- Dr.
4. Closing balance at the close of the day ---------- Dr./Cr.

Designated bank branches:

1. Opening balance for the day ---------- Dr./Cr.
2. Total credits during the day: -
   a) On account of states revenues ---------- Cr.
   b) On account of transfers from the central government ---------- Cr.
   c) On account of credits received from other branches or government accounts ---------- Cr.
3. Total debits during the day: -
   a) On account of meeting debt obligations ---------- Dr.
   b) On account of pensions ---------- Dr.
   c) On account of transfer of credits of

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revenue to the apex account ----------Dr.

4. Closing balance at the close of the day ---------- Dr./Cr.

6.11.4 The information to be given by the treasury officers is available with them as it is provided to them by the concerned bank branches every day in the morning for the transactions of the preceding day. The designated branches of the bank do not, however, follow the system of giving these daily accounts statements to any of the authority of the government on day to day basis. The result is that there is no control on prompt transfer of government credits to the government account, although they are required to do so in terms of the agreement executed with the bank. They should also give the required information regularly to the finance department in the same manner in which it is given by the treasury bank branches to the treasury officers. The information thus made available by them can be compiled and consolidated in the registers mentioned hereunder:

01. Registers for consolidation of bank transactions relating to different districts of the state

02. Registers for consolidation of bank transaction originating in designated branches of the J&K Bank.

6.11.5 These details can further be consolidated in a register of overall position of the cash balance of the state government in its bank accounts. A separate account shall also be opened to record the cash transactions which remain in transit from time to time so that a watch thereon is also facilitated.

6.12.0 Adjusting Accounts:

6.12.1 These accounts are maintained for financial settlements in respect of payments made to and on behalf of the central government, other state governments and other agencies like railways, defence etc. Such transaction originate at treasuries and are classified under various settlement accounts as prescribed by the CAG of India. Normally, it is the responsibility of the state accountant general to ensure that these settlements are prompt. There is however, no mechanism available with the state government to find out, at periodical intervals net effect of such settlement accounts. As a process of budgetary control, the treasury officers should report monthly, the aggregate debits and credits raised under these adjusting heads. Similarly, the state accountant general should also report the adjustments/cash transactions that originate in that office under these heads of account to the finance department on monthly

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basis. With the help of such details it should be possible for the finance department to find out how far these settlements remain pending and need to be pursued with the help of a properly designed return of such accounts and its analysis at the periodical intervals.

6.13.0. Resource Arrangement:

6.13.1 As already pointed out, once the ways and means forecasts are developed and adopted, the over all position of the cash availability and the expenditure commitments during a forecast period become known, department wise, with sufficient details and this provides the required data on which resource arrangement could be based, involving: -

01. keeping a close watch on the behavior of the forecasts so that cash accruals do not fall below the desired level at any time; and
02. feeding the individual treasuries in a manner that these have sufficient funds to meet the local demands.

6.13.2 Monitoring of cash inflow and outflow can be effective through the apex bank account maintained in accordance with the envisaged procedure. The resources wing of the finance department should make out a daily report from the said account for a critical analysis aimed at identification of distortions if any, in the forecasts so that required remedial measures are applied. Such an exercise may even call for discussing the short comings with the concerned controlling officer(s). This will help, not only in taking proposed remedial measures, but will also go a long way in making these officers to realize that their involvement is important for effective implementation of various budgeted programmes and activities. The finance department should accordingly, be in close contact with the major revenue realization and the spending controlling officers and make use of all the data/information available with them for ensuring that effective steps are taken by them in actualizing the ways and means forecasts for implementation of various budgeted programmes and activities.

6.13.3 **Feeding of treasuries: -** This involves fixing the treasury cash limits with the objective of keeping a reasonable credit balance always available in the bank account of a treasury officer, and arranging special cash remittances to the credit of the treasury officers bank accounts to meet heavy demands which cannot, otherwise be accommodated within the prefixed treasury cash limits.

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6.13.4. A minimum non-interest bearing cash balance has to be maintained with the official bankers by the government at all times. This retention balance has to be distributed among the treasury bank accounts and will, in other words constitute treasury cash limits. Obviously, such credit balances will always be available with respective treasury officers and will need to be supplemented as and when depleted either from out of the cash surpluses available elsewhere or by obtaining required over draft. The fact remains that in case of most of the treasuries the normal cash inflow is far less than its cash outflow. In the banking terminology the treasury cash limit will be cash credit limits available in the treasury bank accounts. In the situations when actual credit available in any of these accounts will be less than the prefixed limit, the difference between the two should be treated as bank overdraft for that individual account to be eventually accounted for in the apex bank account. The bank managers handling government's cash business emanating from a treasury should not ask for special authority from the treasury officer to entertain the claims within the treasury cash limits (CC limits) nor insist for arranging cash to reach these limits which have to be maintained by them in these government accounts in the same manner in which it is done for normal banking business except that interest thereon shall be regulated centrally instead of accounting for it in the individual treasury bank accounts.

6.13.5 The treasury cash limits have to be fixed reasonably, keeping in view the minimum cash requirements of a treasury in a day as also the fact that funds for abnormal expenditure requirements like those necessitated on the days of making salary/wage, disbursements can be arranged specially. Keeping this objective in view, free cash retention limit by the bank needs to be fixed reasonably. Although it will mean some additional cost for the government by way of not claiming interest for the increased retention balance if any, but it will be substantially (if not in full) set-aside by the expenditures necessitated on arranging remittances of even smaller amounts from one place to another.

6.13.6 The salary requirement more or less remain uniform in every month of a year unless, hikes in this expenditure are sanctioned by the government. Transfer of funds on this account to the treasuries should be automatic unless the assessed requirement has to be exceeded or cash crunch calls for staggering of such cash outflows. Normally, such procedure should hold good for other heavy payments also because the presumption is that only genuine and urgently required amounts shall be drawn from the treasury. During

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the period of cash crunch visualized through ways and means exercise only, the finance department should enforce regulatory measures to ensure that the bank overdrafts do not grow beyond agreed levels. Such regulatory measures should, however, be drawn and implemented carefully so that besides meeting the above objective, these do not get disrepute to the treasury functioning. In this process instructions may be issued to the treasury officers for not making payments (other than salaries) beyond a prefixed limit without prior approval of the competent authority declared for the purpose by the finance department or through cash management committee(s) if considered necessary. Such restrictions should however, be transitory and for the difficult periods of the resource position of the state only.

6.14.0. Revised Estimates:

6.14.1. As a result of control over expenditure which aims at constant review of the expenditure vis-à-vis the appropriations available under a head of account probable savings and excess come to light which will obviously, necessitate revision in the original estimates and the estimates thus revised are termed as "revised estimates"

6.14.2. The "revised estimates" are therefore estimates of the probable revenue or expenditure of a financial year under various heads of account worked out while the budget is under implementation during a year.

6.14.3. These estimates have to be drawn in a pre-determined proforma known as excesses and surrenders statement which has the columns like head of account, original budget, actuals for the last six months of the previous year, actuals for the first six months of the budget or upto end of the month in which the exercise is made and the anticipated expenditure for the year.

6.14.4. Actuals for the first six months of the year and the actual for the last six months of the previous year can be very helpful indicators of the revised estimates. This information should not however, be accepted without a check/analysis as the base for such estimation of revised estimates for which all other known factors should also be taken into consideration.

6.14.5. By the time revised estimates of expenditure are drawn all sanctions for implementation of the programmes in respect of which lump sum provisions are made in the original budget due to one reason or

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another are expected to have been issued by the competent authority(s).In the revised estimates of the year there is therefore need to incorporate full details of the estimates upto the lowest tier of accounts classification. The revised estimates drawn in this manner will present a fair picture of the expenditure plans and how these are behaving during the process of implementation.

6.15.0. Modified Grant:

6.15.1. Original estimates when these are modified by valid orders of re-appropriation, acceptance of surrenders or supplementary grants etc. are termed as modified grants. Final modified grants for a budget year are prepared after close of that year and it is with reference to these grants that final excesses and surrenders are worked out in the appropriation accounts which are examined by the public accounts committee of the legislature. it is necessary that reasons for modifications in the original estimates are recorded in brief but with clarity. According to the recommendations of the public accounts committee, reasons for re-appropriation of funds/ acceptance of surrenders have to be recoded in the orders sanctioning such re-appropriations or accepting surrenders. Similarly, reasons for obtaining supplementary appropriations from the legislature have also to be recorded in the supplementary statements of expenditure when presented to the legislature.

6.16.0. Re-appropriations:

6.16.1. Appropriation act indicates the limit upto which appropriations are available in a grant. The purpose(s) for which, these appropriations have to be utilized are also defined.

6.16.2. During the course of implementation of the budget ,it may happen that there are excesses under certain heads and similarly there may also be savings under other heads under a grant. Subject to certain general conditions, the government has an authority to adjust expected savings towards anticipated excesses within a grant. It is such an act of making adjustments of savings towards excesses which is termed as re-appropriation. The general restrictions for sanctioning of re-appropriation are indicated here under: -

- Re-appropriation cannot be sanctioned from one grant to another. Within a grant also such orders which will aim at re-appropriation of funds from revenue account to capital account and vice-versa cannot be made.

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- Re-appropriation cannot be made from charged items to voted items and vice-versa .
- Re-appropriation cannot be made to create an appropriation for meeting expenditure on a new service not contemplated in the original budget.
- Re-appropriation cannot be made after close of the financial year.
- Re-appropriation cannot be made in order to create provision of funds for such items which have been specifically omitted or reduced by the legislature.

6.16.3 Over all control of the appropriation rests with the finance department. They have therefore full powers to sanction re-appropriation within the above restrictions. The powers to sanction re-appropriation are delegated to the administrative departments and the controlling officers also. The re-appropriation at these levels can be sanctioned between the heads of account subordinate to one major head of account within a grant only. Transfer of funds within a grant from one major head of account to another major head by means of re-appropriation orders are made by the finance department. The general restrictions for sanction of reappropriations by the administrative departments are as under: -

- Re-appropriation to meet such expenditures which do not stand sanctioned by a competent authority cannot be made.
- No re-appropriation can be made form salaries to meet expenditures on any other object of expenditure.
- No re-appropriation may be made from savings to supplement a contract grant.
- No re-appropriation is permissible from non-recurring items of expenditure to meet additional expenditure on recurring items.
- No part of the provision of new service, which is not required for the purpose for which it was included in the estimates shall be utilized for any other purpose.
- No re-appropriation is made from a lump sum provision provided in the budget pending sanction to its details.
- No re-appropriation should be made which will result in increase in the [illegible]ion meant for temporary staff.
- Re-appropriation from or to funds provided for secret services cannot also be made.
- Grants provided for one industrial concern cannot be diverted to other such concern.
- No re-appropriation should be made which will involve expenditure during future year also.

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- Monetary limit for sanction of re-appropriation by the administrative departments are fixed by the finance department from time to time.

6.16.4 In addition of the above restrictions the general restrictions for sanction of re-appropriation by the government are equally applicable.

6.16.5 The heads of departments and controlling officers are competent to sanction re-appropriation subject to the following FURTHER restrictions:-

- Re-appropriation can be made in respect of the grants placed at their disposal only.
- No re-appropriation can be made to supplement funds under travel expenses or temporary establishments unless such establishments stand sanctioned by the competent authority.
- No re-appropriation is made from the estimates provided in the budget for special purposes.
- No re-appropriation is made from the provision meant for grants-in-aid to the outside institutions.
- In case of head of departments re-appropriations should not exceed the limit prescribed for the purpose by the fiancé department from time to time.

6.17.6 In case of public works departments the chief engineers have full powers to sanction re-appropriation of works grants subject of course to the above general and special restrictions. In other words no monetary ceilings are prescribed for such re-appropriation which are however subject to the following conditions: -

- No expenditure on a new service is incurred unless it is administratively approved and orders of the competent authority to the taking up of such works have been obtained.
- No re-appropriations should be made from plan to non-plan works ordinarily. The chief engineer may however do so for recorded reasons.
- Re-appropriations involving works of various department should not be made without their prior consent.
- Re-appropriation from original works to repairs should be made by the finance department only.

6.16.7 For works including the budget of the forest department re-appropriations may be sanctioned by the chief conservator of forests subject to the above conditions.

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6.17.0 Appropriation accounts:

6.17.1 Once final re-appropriation process is complete, implementation of a budget during a year gets concluded. The over all position of the behavior of the budget thus gets known and is reflected in the appropriation account prepared by the CAG of India through accounts general of the respective states. This account indicates, the original estimates as approved by the legislature and how these stand modified by the acts of re-appropriation, supplementary grants and acceptance of surrenders. Such accounts are prepared in respect of every individual grant and presented to the legislature by the CAG with comments. The appropriation accounts thus placed before the legislature are referred to the public accounts committee by it for their examination and making of final recommendations which become a binding for implementation. The excesses wherever, these may have occurred due to valid reasons get regularized by obtaining "excess grants" from the legislature, obviously after close of the year to which there relate. The same procedure is followed for obtaining there excess grants as is done in case of a normal appropriation act or for getting supplementary grants.

EOB-01

Format for allotments of funds by the controlling officer to a DDO

Year .....

Month of allotment.....

Authority No. .....

Date.....

NP SP DP EAP CP

(Tick the Box in respect of which allotment is made)

01. Name of the Department with code no .....

02. DDO to whom funds are allotted with code no .....

03. Treasury on which funds are allotted with code no .....

04. Major Head where under funds are allotted .....

05. Aggregate amount of allotment made (in figures & words .....

06. Details of funds allotted:-

Sub Major Head/ Minor Head/object of expenditure	Funds already released	Suppl. (+)/ reductions (-)	Upto date allotment (2+3)
1	2	3	4

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Signature : Controlling Officer
With name & stamp

NP=Non plan, SP=State plan, DP= District plan, EAP= Externally aided projects, CP= Central plan

Note: 1.Programme/Activity/object of Expenditure head relevant to the Department shall be mentioned. 2.Separate Forms shall be used for NP,SP,DP, EAP or CP. 3. To be accepted only when signed by the controlling officer in ink.

EOB-02
Register of Grants and appropriations
(maintained by the controlling officers)

Budget year [ ][ ][ ][ ] [ ][ ][ ][ ]

Major Head ..... Controlling officer .....
Sub Major Head ..... Code No. .....

NP SP DP EAP CP

Drawing & disbursing officer.....
Code No. .....

Minor head/ detailed head/ object of expenditure	Budget estimate	Allotments made				
		Month	Original allotment	Supplements(+) Reductions(-)	Net allotment EOM	Ref.to Authority
1	2	3	4	5	6	7

Note: 1.Programme/Activity/object of Expenditure head relevant to the Depart-ment shall be mentioned. 2.Separate Forms shall be used for NP,SP,DP, EAP or CP. 3. To be accepted only when signed by the controlling officer in ink.

EOB-03
Budget allotment register
(To be maintained by the DDO)

Major Head .....
Sub Major Head .....

NP SP DP EAP CP

Minor head/ detailed head/ object of expenditure	Allotments received				
	Month	Original allotment	Supplements(+) Reductions (-)	Net allotment EOM	Ref.to Authority
1	2	3	4	5	6

Expenditure incurred			Balance available EOM
At the start of month	During the month	EOM	
7	8	9	10

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EOB-04

Classification Memo – A part of Bill/Instrument presented at the treasury

1st tier : Sector/Subsector of classifications : _____

2nd tier : Major Head : _____

Non-Plan | State-Plan | Distt.-Plan

Central-Plan | EAP

3rd tier : Sub Major Head

4th tier : Detailed Head : _____

: _____

: _____

5th tier : Object of Exp. : _____

Note : 1. Nature of function at 2nd tier will be ticked by the DDO, 2. Activity head and object of exp. Will be filled in by the DDO while presenting a claim at the treasury.

EOB-05

Budget Control Register of a Drawing & Disbursing Officer

Major Head .....

Sub Major Head .....

NP | SP | DP | EAP | CP

Minor head/ detailed head/ object of expenditure	Allotments from CO					
	Original allotment	Suppl.(+) Reductions (-)	Net allotment	Month in which received	Ref. to A.O.	Try. in a/c with
1	2	3	4	5	6	7

AO= Allotment order

Expenditure incurred				Balance available		Initials of the DDO
Drawn from Try	By adjustment	Total		FOM	EOM	
		FOM	EOM			
8	9	10	11	12	13	14

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FOM= for the month, EOM= end of the month, AO= allotment order

Certificates

1. Certified that the details record in the form are correct and based on original records.

Sd/- Drawing & Disbursing Officer

2. Certified that the entries made in this register correspond to Treasury record and carry TV Nos._____

Drawing & Disbursing Officer Treasury Officer

EOB-06

Memo to be attached to a cheque by CDO on submitting it to the treasury

Budget year ☐☐☐☐ ☐☐☐☐

1.0 Treasury:- 1.1 Name:_____ 1.2 Code No._____	2.0 CDO 2.1 Designation___ 2.2 Code No. ____	3.0 Cheque 3.1 Cheque No.__ __ 3.2 Dated_____

Major head/Sub major head/ minor head/sub minor head/ detailed head	Budget allocation		Expenditure including this cheque		
	FOM	EOM	From Try.	By adjustment	Total
1	2	3	4	5	6

FOM=for the month, EOM=end of month, CDO= Cheque drawing officer

1. Certified that above entries are correct based on original records of accounts maintained in the division.
2. Certified that allotment has been made by the controlling officer under No._____ dated_____ available with the treasury.

Sd/- CDO

EOB-07

Monthly compilation/reconciliation statement of Controlling Officer

Controlling officer
Designation _____ Budget year ☐☐☐☐ ☐☐☐☐

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Code No. _____ Month ☐☐

Major head/sub major head/minor head/ detailed head/object of expenditure	DDO/Expenditure						Total	
	DDO		DDO		DDO			
	FOM	EOM	FOM	EOM	FOM	EOM	FOM	EOM
1	2	3	4	5	6	7	8	9

Columns may be added after 7 if need be to provide for more DDOs
Certified that the above expenditure has been reconciled with the books of the AG's office and found correct except in respect of the following.

Sd/- Rep. Of CO A/O of AG's office

FOM=For the month, EOM=End of month, Co= controlling officer

EOB-08

Budget control register civil deptts. maintained at the Treasury

Treasury ___DDO __ Budget year ☐☐☐☐ ☐☐☐☐
Code No._____Code No_____

PART-I

01. Budget Control Register of _____DDO

02. DDO code No., ☐☐☐☐

03. Department with code No.
Name _____

code No., ☐☐☐

04. Budget controlling officers (s) for the DDO

Designation	Code No.
i)	☐☐☐☐
ii)	☐☐☐☐
iii)	☐☐☐☐

05. Budget Implementation by the DDO Nomenclatu111111e No.

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Major Head (s)

i) ☐☐☐☐

ii) ☐☐☐☐

iii) ☐☐☐☐

Sub Major Head (s)

i) ☐☐☐☐

ii) ☐☐☐☐

iii) ☐☐☐☐

Minor Head (s)

i) ☐☐

ii) ☐☐

iii) ☐☐

06. Nature of the budget operated upon | NP | SP | DP | EAP | CP |

(Please Tick the relevant boxes)

Try. Auditor Supdt. T.O.

PART-II

BUDGET ALLOCATIONS AUTHORISED TO THE DDO

Ref. to the Authority

1._____

2._____

3._____

4_____

5_____

6._____

Authorized by

1._____

2._____

3._____

NP	SP	DP	EAP	CP

Account classification Major head/sub major head/minor head/ detailed head/object of expenditure.	Amount Authorized (Rs. in lakhs)							Net funds available 2+/-3 to 8
	Original allotment	Supplements (+)/Reductions (-)						
1	2	3	4	5	6	7	8	9

Try. Auditor Supdt. T.O.

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PART-III

OBJECT HEADWISE DETAILS OF EXPENDITURE AND NET AVAILABLE OF FUNDS

Allotment as per part-II (Rs. in lakhs)
1st _____
2nd _____
3rd _____
4th _____
5th _____
6th _____

Major Heads _____
Sub Major Head _____
Minor Head _____
Object of Exp._____

Whether | NP | SP | DP | EAP | CP | CSS |

Tv No. & Date	Amt. Of the Bill paid		Cumulative Exp.		Balance available W.R.T Gross Exp. (Allocations-Col.4)	Initials T.O.
	Gross	Net	Gross	Net		
1	2	3	4	5	6	7

Note : Separate page should be opened for each object of expenditure under NP, SP, DP, EAP & CP

EOB-09

Budget control register cheque drawing officers (CDOs) to be maintained at the Treasury

Treasury ____CDO ___ Budget year | | | | | | | | |
Code No._____Code No_____

PART-I

01. Budget Control Register of _____CDO

02. CDO code No., | | | | |

03. Department with code No.
Name _____
code No., | | | |

04. Budget controlling officers (s) for the CDO

Designation Code No.

i) | | | | |

ii) | | | | |

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iii) [ ][ ][ ][ ]

05. Budget Implementation by the CDO — Nomenclature Code No.

- Major Head (s)
  - i)_____ [ ][ ][ ][ ]
  - ii)_____ [ ][ ][ ][ ]
  - iii)_____ [ ][ ][ ][ ]
- Sub Major Head (s)
  - i)_____ [ ][ ][ ][ ]
  - ii)_____ [ ][ ][ ][ ]
  - iii)_____ [ ][ ][ ][ ]
- Minor Head (s)
  - i)_____ [ ][ ]
  - ii)_____ [ ][ ]
  - iii)_____ [ ][ ]

06. Nature of the budget operated upon | NP | SP | DP | EAP | CP |
(Please Tick the relevant boxes)

Try. Aditor Try. Supt. T.O.

PART-II

Watching of expenditure against total allocation drawn from the try. Through remittance head

a) Budget allotments made.
Allotment order references

1_____ CDO _____
2._____ Code No._____
3_____ BCO_____
4_____ Code No._____
5._____

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6_____

Allotment available from previous year	Original allotment	Supplements (+)/Reductions (-)							Total allotment on a date	Initials of T.O.
1	2	3	4	5	6	7	8	9	10	11

Expenditure					
Cheque No/Date	Amount			Try. Vr. No. & date under remittance head	Initials of T.O
	Against cheques issued in previous month(s)	Against cheques issued during the month	Total		
11	12	13	14	15	16

PART-III

Budget control with reference to the monthly expenditure return as received from cheque drawing officer

NP	SP	DP	EAP	CP

Major head/sub major head/ minor head/object of exp.	Budget allocation	Total Exp. Booked during the month				Cumulative Exp. Ending month			Total Exp.
		By demands through cheques	By adjustment		Total for the month	By demand through cheques	By adjustment		
			Stock	others			Stock	Others	
1	2	3	4	5	6	7	8	9	10

EOB-10

Major Head wise revenue receipts deposited in the Treasury.

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____

Code No._____

Month ☐☐

Major Head	Actual Receipts	
	FOM	EOM
1	2	3

Sd/- Treasury Officer

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EOB-11

Major Head wise receipts under public debts in the Treasury

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____
Code No._____

Month ☐☐

Major Head	Actual Receipts	
	FOM	EOM
1	2	3

Sd/- Treasury Officer

EOB-12

Major Head wise receipts under loans & advances in the Treasury

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____
Code No._____

Month ☐☐

Major Head	Actual Receipts	
	FOM	EOM
1	2	3

Sd/- Treasury Officer

EOB-13

Major Head wise receipts under public A/c in the Treasury

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____
Code No._____

Month ☐☐

Major Head	Actual Receipts	
	FOM	EOM
1	2	3

Sd/- Treasury Officer

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EOB-14

Major Head wise expenditure against budget allocations in the Revenue A/c.

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____

Code No._____

Month ☐☐

Major head	Budget allocation						Expenditure					
	NP	SP	DP	EAP	CSS	Total	NP	SP	DP	EAP	CSS	Total
1	2	3	4	5	6	7	8	9	10	11	12	13

Sd/- Treasury Officer

EOB-15

Major Head wise expenditure against budget allocation in the capital A/c

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____

Code No._____

Month ☐☐

Major head	Budget allocation						Expenditure					
	NP	SP	DP	EAP	CSS	Total	NP	SP	DP	EAP	CSS	Total
1	2	3	4	5	6	7	8	9	10	11	12	13

Sd/- Treasury Officer

EOB-16

Major Head wise expenditure under public debt in the Treasury.

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____

Code No._____

Month ☐☐

Major Head	Actual Receipts	
	FOM	EOM
1	2	3

Sd/- Treasury Officer

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EOB-17

Major Head wise expenditure under loans & Advances from the Treasury.

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____

Code No._____

Month ☐☐

Major head	Budget allocation						Expenditure					
	NP	SP	DP	EAP	CSS	Total	NP	SP	DP	EAP	CSS	Total
1	2	3	4	5	6	7	8	9	10	11	12	13

Sd/- Treasury Officer

EOB-18

Major Head wise expenditure under public A/c from the Treasury.

Budget year ☐☐☐☐ ☐☐☐☐ Treasury_____

Code No._____

Month ☐☐

Major Head	Actual Receipts	
	FOM	EOM
1	2	3

Sd/- Treasury Officer

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Chapter 7

FINANCIAL COMMITTEES OF THE LEGISLATURE

7.1.0. Introduction

7.1.1 Control of the legislature on the public expenditure is absolute. The executive is enabled to operate upon the funds as envisaged in the constitution only through the modem of budget laws, technically called Appropriation Acts. These legal instruments become available as a result of various procedures prescribed for introduction, passage, consideration and passing of the budget, to provide sufficient opportunity to the legislators to exercise their control over public purse. Significant expansion in government activity and consequent rise in public expenditure has created need for more legislative control over the state budget. The experience has however, shown that such a control is not really effective and meaningful. The budgetary exercises in the legislature are generally more political than purposeful to provide teeth to this instrument of legislative financial control.

7.1.2 Cropping up of such a situation was apprehended long back, even prior to independence of the country. Apart from the fact that the legislators do not always have technical competence and time for detailed examination of the budget documents while these are in the process of getting their approval or to find out how the financial authorizations given by them have behaved as a result of post budget exercises, they have a tendency to use the budgetary debates for critical review of the policies of the government of the day, which are often unrelated to the budget in itself. To overcome such constraints, to help the legislators to exercise actual financial control, the technique of financial committees has been evolved and provided for as a part of the procedures for conduct of business in the House. These committees are as under:-

01. Estimates committee.
02. Public accounts committee.
03. Committee on public undertakings.

7.1.3 In this chapter an attempt has been made to describe evolution of these committees, their organization, functions and working procedures.

7.2.0 Estimates committee:

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7.2.1 It was in the year 1921 that standing finance committee was set up to bring under its scrutiny a portion of the votable expenditure of government of India. Subsequently in pursuance to the report of 1918 on the Indian constitutional reforms, some standing advisory committees were also established, obviously to meet the requirements of the growing political consciousness in the country. "These bodies were meant to associate Indians with the administration and enable the executive to know in advance what lines of criticism to expect in the Assembly". These committees continued to operate upto eve of the independence but only as advisory bodies. The fact however, remains that the experience gained and conventions developed during this period have proved helpful in giving a firm foundation to the legislative estimates committee.

7.2.2 In the year 1950 when the Indian constitution was implemented the demand for setting up of an estimates committee started gaining ground. For some time the government opposed the idea, "presumably fearing that too powerful parliamentary committee might have a crippling effect on government departments." Eventually however, the first estimates committee was elected on 10th of April, 1950 with its administrative powers being vested in the speaker who was also empowered to nominate its chairman which made this committee from its very inception a parliamentary committee in the real sense of the term.

7.2.3 The functions, organizations and working of the estimates committee is regulated under rules of procedure and conduct of business in the legislature. These are more or less similar in the country. In case of J&K state the following provisions have been made to cover various aspects of functioning of this committee.

7.2.4 **Constitution of the estimates committee**:- The estimates committee is constituted after commencement of the first session of the assembly in every year. It has thirteen members, of which eleven are from the assembly and two from the council. The members of the committee are elected every year according to the principle of proportional representation by means of single transferable vote. In case the speaker is satisfied that due to any reason it is not practicable to hold elections of the committee by the legislative assembly at the appropriate time, the said authority may order/direct that elections to the committee shall be held by postal ballot in accordance with the specified procedure (by the speaker). In case it is not possible to hold these elections in this manner also,

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the speaker may nominate the members of the committee. This procedure is followed by the legislative council also in which case, however, the nomination of two member's when elections are not possible is made by the chairman of the legislative council on the request of the speaker legislative assembly.

7.2.5 The minister is not elected or nominated as member of the committee. In the event of a member of the committee becomes a minister, he ceases to be the member from the date of such appointment.

7.2.6 The committee may from time to time appoint one or more sub-committees/ study groups for carrying out detailed examination of the various subjects brought under its consideration.

7.2.7 The secretarial assistance is provided to the committee by the legislative assembly secretariat.

7.2.8 **Functions of the estimates committee**: The functions of the committee are:-

01 to report what economy, improvements in organization, efficiency or administrative reform, consistent with the policy underlying the estimates can be effected.

02. to suggest alternative policies in order to bring about efficiency and economy in administration:

03. to examine whether the money is well laid out within the limits of the policy implied in the estimates ; and

04. to suggest the form in which the estimates shall be presented to the legislature :

7.2.9 The committee does not however, exercise its functions in relation to such public undertakings as are allotted to the committee on public undertakings under relevant rules or by the speaker.

7.2.10 **Working of the estimates committee**:- The committee selects from time to time for examination such of the estimates relating to a department or a part of thereof, or a group of departments or such subjects or such public undertakings other than those entrusted to the committee on public undertakings falling within its jurisdiction as it may deem fit. The programme of work for the examination of subjects is chalked out by the secretariat of the committee and is subject to such amendments as the committee may from time to time make therein.

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7.2.11 The committee initiates its deliberations on the basis of the material collected from the government department(s)/ undertaking(s) called for in writing by its secretariat. This material, termed as preliminary material is generally on the following lines:-

01. Organizational set up of the department, section-wise and its attached and subordinate offices/branches, if any. (the information has to be in the form of a chart supported by short explanatory notes showing the establishment gazetted and non-gazetted of each office/branch with changes therein during the past three years supported by reasons for such changes.)

02. Number of receipts and dispatches and arrears separately in respect of the department, section-wise and its attached or subordinate offices/branches for the preceding three years in a tabulated form.

03. The functions of the department, section-wise and its attached and subordinate offices/branches: (A brief historical background being given wherever required)

04. Broad details on which the estimates are based. (Important items of expenditure to be given, stating the basis on which the amount budgeted for against each such item has been arrived at.)

05. The original estimates, the revised estimates and the actual expenditure under each sub-head during each of the preceding three years together with reasons for variations, if any, to be given in the prescribed proforma.

06. New items of expenditure with explanatory notes.

07. Volume of work in the department, section-wise and its attached and subordinate offices/branches covering the period of estimates and giving, for the purpose of comparison, corresponding figures of the preceding three years.

08. Details of schemes or projects which the department has undertaken. (The details shall include inter alias the name and salient features of the scheme, the estimates of expenditure, scheduled period for its completion, yield, if any, and progress made to date). A statement showing year-wise break up of actual expenditure on each scheme or project from its inception and the probables for the current year.

09 A review of financial and physical performance, plan programmes and targets, as well as a forecast for the current year and remaining years of the relevant plan period.

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10. Plan schemes or projects have to be distinguished from the central/centrally sponsored schemes or projects and in giving details for the such projects of either nature, the income, if any, and the establishment against the total cost of the scheme or project shall also be given.
11. Reports/publications, if any, issued on the working of the department and its attached and subordinate offices/ branches.
12. Reports of committees appointed in the past to examine particular matter dealt with by the department and its subordinate offices/branches.
13. A statement of income and expenditure for the past three years and also for the current financial year.
14. Any other information that the committee might call for as the government may think it necessary or proper to give.

7.2.12 **Circulation of material to members of the estimates committee:-** As soon as papers and are received in the secretariat of the committee, these are circulated to the members with a covering memorandum.

7.2.13 The papers thus, circulated among the committee members are treated as confidential and the contents thereof are not divulged to any one nor reference is made to such information outside the committee at any time or in any manner before the report on the subject is presented to the legislative assembly. Thereafter, reference may be made to such information as is available in the documents or recorded on the table.

7.2.14 The members may, after going through the papers frame questions or points on which further inform is required by them. These question or points shall be sent by members to the secretariat of the committee by a prescribed date which shall not be later than seven day period prior to date of the sitting of the committee at which such questions are intended to be raised. In case meeting of the committee is fixed at a shorter notice the period of seven days is reduced. In no case such notice shall, unless the chairman otherwise orders, be of less then 48 hours. The members may send in their questions or suggestions if any, to the secretariat for the consideration of the committee in advance of the date of the sitting at which such suggestions are to be taken up.

7.2.15 The question/points framed by members together with other relevant points on the subject under examination are consolidated in the form of a questionnaire, circulated among the members of the

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committee with explanatory note wherever necessary for its consideration or the concerned sub-committee/study group and after the same has been approved it is sent to department /undertaking which is required to furnish replies thereto by a date to be specified by committee through its secretariat.

7.2.16 Information/data/replies to the questionnaire received from the department/undertaking is circulated to the members of the committee with an explanatory memorandum. Where further clarification(s) is required on any point or data/information, it is called for by the secretariat, of the committee.

7.2.17 The sub-committee/study group makes available to the committee such of the tour notes, study reports and other reports or papers as they consider necessary. Similarly, the committee may make on the spot study of the activities of the department, the estimates of which are under their examination.

7.2.18. **Production of documents before estimates committee**–(1) The committee may send for persons, papers and records required in connection with the examination of the estimates of the department/undertaking. In the case of secret documents required by the committee, such paper may be made available by the department/undertaking confidentially to the chairman in the first instance unless it is certified by the minister concerned that the document could not be made available on the ground that its disclosure would be prejudicial to the safety or interest of the state. The chairman may give due consideration to the wishes of the department/ undertaking before making any secret documents available to the members of the committee. Any difference of opinion between the department/ under-taking and the chairman is settled by discussion and if no satisfactory arrangement is arrived at, the matter is placed before the speaker for decision.

7.2.19 Once the information/data as discussed above becomes available, the process of oral examination is initiated. For this purpose gist of points and or question for oral examination of the committee is prepared by its secretariat incorporating therein any point (s) that may be received from the members in this regard and may if time permits, be circulated in advance to the members of the committee.

7.2.20 The procedure for taking oral evidence is that the chairman puts questions one by one to the witnesses. If a member desires to put a question he has to do so with the permission of the chairman. In case the witness is not in a position to elucidate any point

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immediately, it is permitted by the chairman to furnish a reply to its secretariat in writing. The secretariat notes down the points on which further information is required by the committee and under the directions of the chairman take such action in the matter as may be necessary.

7.2.21 If in the opinion of the chairman a document, such as representation, memorandum etc. presented to the committee, contains words, phrases or expressions which are unparliamentary, irrelevant or are not couched in respectful decorous and temperate language, or are otherwise inappropriate that authority may order such words, phrases or expressions to be expunged from such document.

7.2.22 **Holding of meetings by the estimates committee** :- When the date and time of the meeting of the committee is fixed by the chairman, notice thereof are circulated to the members of the committee. Apart from members, a member of lok sabha, who is not a member of the committee, or a member of rajya sabha or state legislature, or an officer of a state legislature is with the permission of the chairman allowed to attend a sitting of the committee, when evidence is being taken by them, but not when the committee is deliberating upon issue(s) brought under consideration by it. In other words such a member or an officer does not take part in any manner in the proceedings nor sit to become a part of the committee.

7.2.23 The decisions of the committee/sub-committee/study group is recorded by the secretariat and approved by the chairman. The minutes of each sitting of the committee/sub-committee/study group are circulated among the members. If any member desires any alternation in the minutes on the ground that these are not in conformity with the decisions arrived at, the matter shall be taken up at the next sitting and the decisions of the committee/sub-committee taken on the proposed amendment(s) incorporated in the minutes of the sitting. Until the minutes are presented to the assembly these are treated as confidential.

7.2.24 Such of the minutes of the sitting of the committee/sub-committee at which evidence has been taken or as the chairman may direct are laid on the table of the legislature assembly as soon as possible after the presentation of the report to which they relate.

7.2.25 **Report of the estimates committee:-** When the examination of any matter referred to them is completed by the concerned sub-committee/study group its conclusions and recommendations are brought

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under deliberation at a sitting which may be attended by other members of the committee also. On the basis of these conclusions and recommendations a draft of the report is prepared by the secretariat of the committee and unless otherwise directed, circulated among the members for consideration with the approval of the chairman to be considered at a sitting of the committee. The report of the committee embodies the decisions of the majority of the members present.

7.2.26 In case it is not possible or convenient to hold a sitting of the committee for the consideration and adoption of a draft report, the chairman may, with the permission of the committee, finalize such report on the basis of the suggestions and comments received in writing from members.

7.2.27 Advance copies of the report as finalized by the committee are marked 'secret' and sent to the concerned department/undertaking and also to the finance department for verification of factual details. It is enjoined on them to treat the contents of the report as secret until the report is presented to the legislature assembly. On receipt of the comments of the department/undertaking the chairman may make suitable modifications in the report to correct factual inaccuracies, if any, or may direct that the matter be placed before the committee for consideration.

7.2.28 The department/undertaking to which it relates is requested to furnish 25 copies of a statement to the secretariat of the committee showing the action taken by government on the observations and recommendations made by the committee in their report. The statement showing the action taken by the government on the observations and recommendations contained in the report of the committee is placed with suitable comments before the study group appointed for the purpose for examination and then together with the recommendations of that group placed before the committee or circulated among its members. On the basis of the comments made by the committee or received from the members, as the case may be, a report is prepared and presented to the legislature assembly.

7.2.29 As soon as possible after presentation of the report to the legislature assembly copies thereof are made available to the members of the legislature assembly and other persons, authorities concerned and others.

7.3.0 Public accounts committee:

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7.3.1 The estimates committee is concerned with ensuring that "the funds asked for by the government are not more than that strictly necessary, and have been estimated with due regard to the economy in spending". This is obviously beginning of the legislatures control over the public purse and has necessarily to be taken to its logical conclusion which is to find out appropriations granted by it have been utilized for the purpose(s) for which granted with due sense of economy". To reach this goal it is necessary to review the transactions after the budget has been executed, money spent and accounts closed. This exercise is undertaken by the public accounts committee assisted by the CAG of India who reports to the legislature the factual position with regard to the execution of the budget, purpose of the expenditure incurred and observance of the cannons of the financial propriety by the executive.

7.3.2 The system of subjecting the public spending to the legislative control as above has evolved in India over a period of time. The first public accounts committee was set up in the year 1921 as a part of Montagu-Chelmsford reforms. "The establishment of these committees at such an early period in the constitutional development of India is said to be mainly due to the efforts of Sir Forederic Gauntlet, the then auditor general of India who had a vision to see that "there was a considerable value in the financial actions of the executive government being subjected to a close scrutiny by a committee of the legislature". The GOI Act, 1919 made provisions with regard to the composition and functions of the public accounts committee which continued to be operative even in GOI Act, 1935. "Although India became independent in 1947, the constitutional status and structure of the public accounts committee remained the same till inauguration of the present constitution on 26the January, 1950". A radical change was then brought about in the constitution and functioning of the committee. Its administrative control was passed on to the speaker, all the members began to be elected by the house and the chairman getting nominated by the speaker from among the members of the committee. "It was thus for the first time that the public accounts committee become a parliamentary committee in true sense of the term primarily because the committee was thus made to function in a free atmosphere and to offer its criticism in an unrestricted manner".

7.3.3 The parliament as also every state legislature has its own public accounts committee working where of is regulated by respective rules of procedure and conduct of business in the house.

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7.3.4 **Functions of the public accounts committee in J&K:-** These are laid down in the "Rules of procedure and conduct of business in J&K legislature assembly" as described hereunder:-

01. Examination of the appropriation of the sums granted by the house for the expenditure of the government.
02. Examination of the annual finance accounts of the government and other accounts laid before the house as the committee may think fit.

7.3.5 In the above scrutiny, it is the duty of the committee to satisfy itself with regard to the following:-

01. That the moneys shown in the accounts as having been disbursed were legally available for and, applicable to the service or purpose to which they have been applied or charged.
02. That the expenditure confirms to the authority which governs it.
03. That every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

7.3.6 The committee is also duty bound to go in for scrutiny in the following areas of the legislative financial control.

01. Examination of the statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes concerns and projects together with the balance sheets and statements of profit and loss accounts which the governor may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation trading or manufacturing scheme or concern for project and the report of the comptroller and auditor general thereon.
02. Scrutiny of the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which is conducted by the comptroller and auditor general of India either under the directions of the governor or by a statue;
03. Examination of the report of the comptroller and auditor general in cases where the governor has required this authority to conduct an audit of any receipt or to examine the accounts of stores and stocks.

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7.3.7 The committee can not, however, extend its jurisdiction to such of the public undertakings under the rules or by the speaker which have been or are brought within the ambit of the committee on public undertakings.

7.3.8 If any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose, the committee examines with reference to the facts of each case, the circumstances leading to such an excess and make such recommendations as it may deem fit:

7.3.9 **Constitution of the public accounts committee** : The committee on public accounts in addition to the finance minister who is a member (ex-officio), consists of not more than thirteen members, of whom not more than eleven members are elected by the assembly every year from among its members according to the principle of proportional representation by means of single transferable vote and not more than two members are likewise elected by the council every year from among its members.

7.3.10 If the speaker is satisfied that due to any reason it is not practicable to hold elections of the committee by the assembly at the appropriate time, he may by order, direct that election to such committee shall be held by postal ballot in such manner as that authority may specify:

7.3.11 The term of the office of members of the committee is not to exceed one year.

7.3.12 The accountant general attends the meeting of the committee to assist it by pointing out the important items in the accounts and audit report of the accounts entrusted to them for scrutiny and advising them on the various points that may arise during subsequent discussions. The comptroller and auditor general of India may also attend any meeting of the committee and offer similar advice.

7.3.13 The public accounts committee may appoint one or more sub-committees, each having the powers of the undivided committee, to examine any matters that may be referred to them and the reports of such sub-committees shall be deemed to be the reports of the whole committee, if they are approved at a sitting of the whole committee. The order of reference to a sub-committee states the

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point or points for investigation. The report of the sub-committee is considered by the whole committee.

7.3.14 The committee has power to require the attendance of persons or the production of papers or records, if such a course is considered necessary for the discharge of its duties. Similarly, the committee may also recall any witness(s) to give further evidence on any point which is under its consideration.

7.3.15 If a department is represented by more than one officer and desires that the grants with which a particular officer is concerned should first be considered, information is given in advance to the committee regarding the order in which the particular grants are desired to be dealt with.

7.3.16 **Functioning of the public accounts committee :-** Functioning of the committee starts after the audit report of the comptroller and auditor general of India relating to the appropriation accounts of the Jammu & Kashmir state has been laid before the legislative assembly as laid down in Article 151 (2) of the constitution of India, a copy thereof is circulated among the members of the committee. Similarly, copies of the finance accounts of the Jammu & Kashmir state and the audit report thereon is also circulated to the member of the public accounts committee after these have been laid on the Table of the House.

7.3.17 The members after going through the accounts and audit reports frame question (s) or point(s) on which further information is required by them and may make suggestions for the consideration of the committee. These questions, points or suggestions are sent to the secretary for the committee seven days in advance of the date of the meeting. Where the committee meets at a short notice, the period of seven days is reduced under orders of the chairman.

7.3.18 Where departments are called upon to submit notes, memoranda etc. either in pursuance of action taken on the earlier recommendations of the committee or in reference to the point or points on which information is called for by the committee or a member thereof, such notes and memoranda are first shown to the accountant general with all connected papers for purpose of verifying all the figures and statements of facts contained therein before their submission to the public accounts committee. If any paper, memorandum, document or notes is marked "Secret" and the

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department concerned makes a specific request that its contents should not be made public, it is dealt with accordingly.

7.3.19 Before starting the deliberations the programme is drawn by the secretary and approved by the chairman and copies thereof are circulated to the concerned department and others so that they keep themselves in readiness.

7.3.20 The secretaries to the government and such other officers are called by the committee to give evidence through personnel appearance. If they are unable to attend in person for unavoidable reasons, they are allowed to depute their proper representatives with the permission of the chairman. Officers summoned to give evidence may, if allowed by the chairman, bring such other officers for their assistance as they consider necessary. The accountant general or in his absence his deputy attends all the meetings of the committee. The committee invites secretary to government, finance department whenever necessary to advice them on the point(s) that may arise. He is also allowed to bring such of his staff as he considers necessary for the purpose.

7.3.21 The committee meets at such time and for such period as the chairman determines from time to time.

7.3.22 The public accounts committee may appoint one or more sub-committees, each having the powers of the undivided committee, to examine any matters that may be referred to them and the reports of such sub-committees are deemed to be the reports of the whole committee, if they are approved at a sitting of the whole committee. The order of reference to a sub-committee states the point or points for investigation by it. The report of the sub-committee is considered by the whole committee.

7.3.23 If chairman of the committee or of a sub-committee is of the opinion that words, phrases or expressions in the proceedings of the committee or a sub-committee, as the case may be, contain information which will not be in the public interest to publish or contain observations of a purely personal character, he may order such words, phrases or expressions to be expunged from the proceedings. An indication to this effect is given in the form a foot note on the relevant page in the printed copy of the proceedings.

7.3.24 A record of the proceedings of each meeting of the committee is kept by secretary, who notes the points on which further information

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is required by the committee as a result of examination of the departmental secretaries and others and under the direction of the chairman takes such action as may be necessary. The evidence given before a sub- committee of the public accounts committee are not printed verbatim. The minutes of the meetings of sub-committee are also maintained by the secretary and appended to the report of the sub-committee. Such minutes are included in the report of the committee with the approval of the committee. No documents submitted to the committee can be withdrawn or altered without the knowledge and approval of the committee.

7.3.25 The meetings of the committee are not open to the press. Secretary, however, prepares a daily communiqué for communication to the press giving information only about the accounts and names of the departments etc. examined by the committee during the day. Where the public accounts committee decides to print the whole or any part of the evidence it is printed in the form of a separate volume and forms part of the report of the committee dealing with the relevant accounts and audit reports thereon. The verbatim proceedings are for the use of the committee only and only such papers as have been laid on the table of the house are made public.

7.3.26 The committee branch of the legislative assembly secretariat brings up to date the "statement showing action taken or proposed, to be taken on the recommendations of the public accounts committee" on the basis of the replies given by the departments etc. and arranges its circulation among the members of the committee a week before the date of commencement of the meetings for the examination of accounts and report thereon. This statement is also accompanied by copies of the memoranda, notes or other literature forwarded by the departments etc. stating the action taken by them on the particular item/items with which they are concerned.

7.3.27 **Report of the public accounts committee:-** When the examination of any part of the accounts has been completed, the committee frames its recommendations. Each draft report or section thereof is considered at a meeting of the committee and embodies the decisions of the majority of the members present and voting. There is no note of dissent to the reports of the committee. The chairman signs the report on behalf of the committee to be presented to the legislative assembly.

7.3.28 As soon as each report has been completed, it is printed. A type script or a printed copy of the report, if available, is presented to the

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house and printed copies supplied to the members at a later date. The report is ordinarily presented to the house by the chairman, but if he is unable to do so, one of the members of the committee authorized by him presents the report on his behalf. Evidence relating to a particular report of the committee is also presented to the house by the chairman or in his absence by any member of the committee in the same manner as the report.

7.4.0 Committee on public undertakings:

7.4.1 Investment in public sector undertakings is enormous which mostly comes from the government, appropriation where for is obtained from the legislature through budget laws. Working of these public sector undertakings being in accordance with the sound business principles and prudent commercial practice is different from regular government departments. Working of the public sector undertakings is thus brought under scrutiny by the legislature through its committee on public undertakings. This committee is also set up under rules of procedure and conduct of business.

7.4.2 **Constitution of the public undertakings committee:-** The committee consists of 13 members of whom not more than 11 members are elected by the assembly every year from its members according to the principle of proportional representation by means of single transferable vote and not more than 2 members are likewise elected by the council every year among its members. A Minister is not however, elected or nominated as a member of the committee and if a member after his election or nomination to the committee is appointed as a minister he ceases to be the member from the date of such appointment.

7.4.3 If the Speaker is satisfied that due to any reason it is not practicable to hold elections of the committee by the assembly at the appropriate time, he may order, directing that the elections to the committee shall be held by postal ballot in such manner as he may specify. In case it is not, practicable to hold elections by postal ballot as aforesaid, the speaker nominates the members of the committee. Likewise, the chairman legislative council on a request from the speaker nominates the members of the committee from the council.

7.4.4 The accountant general or in his absence, his deputy attends the meetings of the committee to assist them during oral evidence when audit paras relating to various undertakings are examined by pointing out important items in the accounts and audit reports entrusted to the committee for scrutiny after these have been laid on

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the table of the house and advising them on the various points that may arise during the discussions. The comptroller and auditor general of India may also attend any meeting of the committee and offer similar advice. The secretary or the additional secretary of the administrative department and such other officers as may be called by the committee to give evidence before them, appear in person. The committee invites the secretary to government finance department or in his absence the additional secretary or any authorized representative, not below the rank of the deputy secretary, whenever, necessary to advice them on the points that may arise.

7.4.5 The committee may however, call upon individual experts/ representatives of non-official organizations who have submitted memoranda on the subjects under examination to appear before it to give evidence.

7.4.6 Secretarial assistance is provided to the committee by the assembly secretariat.

7.4.7 **Jurisdiction of the public undertakings committee** :- The committee on public under-takings is required to examine the working of specified public under-takings. For the time being, the following undertakings have been brought under the scrutiny of the committee:-

- J&K state financial corporation (statutory public undertaking).
- Every government company whose annual report is required to be placed before the houses of the state legislature under the provisions of companies act, 1956.
- J&K industries Ltd., J&K Minerals Ltd., J&K projects construction corporation, J&K Industrial Development Corporation, J&K Agro Industries Corporation, J&K Handicrafts (S&E) Corporation, J&K Tourism Development Corporation, J&K Road Transport Corporation and J&K Bank.

7.4.8 **Functions of the public undertakings committee**:- The functions of the committee in respect of its specified jurisdiction are as under:-

01 Examination of the reports and accounts of the public undertakings as specified.

02. Examination of the reports, if any, of the comptroller and auditor general on the public undertakings.

03. Examination in the context of the autonomy and efficiency of the public undertakings to find out whether the affairs of the

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public undertakings, are managed in accordance with sound business principles and prudent commercial practices ; and

04. Undertaking such other function vested in the committee on public accounts and the committee on estimates in relation to the public undertaking as specified and not covered above allotted to the committee by the speaker from time to time:

7.4.9 The committee does not however, examine and investigate any of the following, namely:-

01. matters of major government policy as distinct from business or commercial functions of the public undertakings;
02. matters of day to day administration;
03. matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established.

7.4.10 **Functioning of the public undertakings committee**:- The department concerned with subjects to be examined by the committee is asked in writing by the assembly secretariat to furnish twenty sets of the necessary material for the use of the members of the committee. The preliminary material to be furnished to the committee in respect of an undertaking is generally on the lines set out as under:-

01. Historical background together with copies of statutes/ memorandum and articles of association of the corporation/ company, rules, regulations issued thereunder, if any.
02. Note giving briefly the objects and present functions of the corporation/company together with copy of the instrument of instructions issued by government, if any.
03. Organizational set up of the corporation/company including that of its various projects/offices. This information may be shown in the form of a chart supported by short explanatory notes.
04. Organizational set up in the administration department which coordinates / controls the work of the corporation / company.
05. A detailed account of the working (the financial as well as physical) of the corporation/ company year-wise, since its inception with reference to every programme undertaken as also for the organization in the aggregate. Reasons for variation between the forecasts and the achievements, if any, are also to be furnished.
06. The original estimates, revised estimates and actual expenditure on the various projects for the last three years together with a brief note indicating the reasons for variation, if any.

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07. Current programme and future plans of the corporation/ company.
08. Copies of the annual reports and accounts for the last three years, together with administrative reports and reviews of government, if any.
09. Copies of monthly/ quarterly reports submitted by the chairman and the financial controller to government during the past one year.
10. Copies of the reports of any inquiry or investigation conducted into the working of the corporation/company.
11. Notes giving main features of the project reports, if any, relating to each project undertaken by the corporation/ company i.e. their estimated cost, scheduled dates of commissioning of the various units in each project, annual rated capacity (both in terms of quantity and value) and the year of reaching that capacity, staff required (category-wise) etc. together with the latest position with reference to each aspect.
12. Copies of agreement, if any, entered into with consultants/ collaborators.
13. Copies of the directives, if any, issued by the government.
14. A brief note indicating the position of similar undertakings in foreign countries.
15. Any other information, which the department/undertaking would like to place before the committee.

7.4.11 The Accountant General is also requested by the assembly secretariat to send 20 copies of memoranda of important points in respect of paras of the audit report (commercial) selected by the committee for detailed examination.

7.4.12 The material thus received is circulated to the members with a covering memorandum as soon as possible by the assembly secretariat to be treated as confidential i.e, the contents thereof are not divulged to anyone nor any reference is made to them at any time outside the committee. Reference may be made only to such information as is available in the documents or records laid on the table of the house.

7.4.13 The members may, after going through the papers suggest questions or points on which further information is required by them. These questions or points are sent by them to the assembly secretariat by a date to be specified by the chairman. The questions and points suggested by members, together with other relevant

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points concerning the subject under examination, are consolidated in the form of a questionnaire. The questionnaire is circulated to all members of the committee with explanatory notes wherever necessary. The questionnaire and the suggestions received from the members are also considered by the study group./ committee. After the approval by the chairman, the questionnaire is sent to the undertaking /department to furnish to the assembly secretariat twenty sets of replies thereto by a date to be specified by the chairman.

7.4.14 The replies received to the questionnaire from the undertaking/ department are circulated to the members. When further clarification is required on any point or additional information is desired, it is called for from the concerned.

7.4.15 The committee with the permission of the speaker undertakes 'on the spot' study of various public undertakings connected with subject under examination. During such visits to various offices, institutions etc., the services of stenographers belonging to such offices or institutions are not utilized by the committee. When members of the committee are on tours, informal meetings are held at the place of the visits, but at such meetings neither any decision is taken nor evidence recorded. During study tours no person who is not a member of the committee, except officials of assembly secretariat are allowed to accompany the committee on the public undertakings, without the specific permission of the chairman. No information or interview is allowed to be given by any member to the press regarding his tour impressions of any public undertakings, or subject under examination. Files are not asked for from the public undertaking visited by members. If it is desired to obtain any information officially the assembly secretariat arranges to obtain the same from the ministry concerned.

7.4.16 Staff members seeking to approach members regarding their grievances are discouraged. Representatives of registered labour associations, which have already furnished written memoranda, may, however, be interviewed at the discretion of the chairman.

7.4.17 The committee may send for persons, papers and records required in connection with the examination of the estimates of the undertaking/ department. In the case of secret documents required by the committee, such papers may be made available by the undertakings/ department confidentially to the chairman in the first instance unless it is certified by the minister concerned that the

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document could not be made available on the ground that its disclosure would be prejudicial to the safety or interest of the state. The chairman may give due consideration to the wishes of the undertaking /department before making any secret documents available to the members of the committee. Any difference of the opinion between the undertaking/department and the chairman is settled by discussions and if no satisfactory arrangement is arrived at, the matter is then placed before the speaker for decision.

7.4.18 On the basis of the information /data thus available the assembly secretariat prepares a list of points and/or questions for oral examination of the witness incorporating therein any suggestions that may be received from members in this regard, for approval by the chairman. Advance copies of the list of points or questions are circulated to the members of the committee. Similarly, copies of such questions etc. are given to the concerned undertaking/ministry not earlier than two days before the date of evidence, provided that questions relating to the examination of audit paras may not be given in advance.

7.4.19 The chairman fixes the time and the date of the sitting of the committee/study group from time to time and notice thereof is given to the members of the committee study group and other concerned.

7.4.20 A member of assembly or a member of council, who is not a member of the committee, or any other person may with the permission of the chairman attended a sitting of the committee, when evidence is being taken, but not when the committee is deliberating. Such member or person shall not, however, take part in any manner in the proceedings of the committee nor sit in the body of the committee.

7.4.21 The committee may wherever necessary take oral evidence of the representative of the undertakings under examination, separately from those of the department concerned. In exceptional cases at the request of the administrative department, representatives of the undertaking(s) may be allowed to be present at the oral evidence of its representative.

7.4.22 While taking oral evidence, ordinarily, the chairman shall put questions serially to the witnesses. If a member desires to put a question he has to do so with the permission of the chairman. In case the witness is not in a position to reply any question immediately, he is permitted by the chairman to furnish the reply to

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the assembly secretariat in writing. The committee may recall any witness to give further evidence on any point which is under consideration of the committee.

7.4.23 The study group may make available to the committee such of the tour notes, study reports and other reports or papers as it considers necessary.

7.4.24 The assembly secretariat shall draft minutes of the sitting of the committee/ study group for approval of chairman/ convener or the member who presided at the sitting, as the case may be. Relevant portions of the proceedings shall be forwarded to the members and the officials tendering evidence before the committee, for confirmation and return within two days of their receipt and if they are not so returned the reporter's copy is treated as final and conclusive. The verbatim proceedings are for the use of the committee only and only such papers as have been laid on the table of the house are made public. Expunction from verbatim proceeding shall be governed by directions of the speaker. The minutes of the sittings of the committee are laid on the table of the house as soon as possible after the presentation of the report to which they relate.

7.4.25 **Report of the public undertakings committee**:- When the examination of any subject has been completed, the committee and the concerned study group may, if it so desired, make a report embodying its conclusions and recommendations. In the case of the report of the study group, it is subject to the approval of the committee. Where no study group has been formed on a subject, the draft of the report prepared by the assembly secretariat is placed before the committee after chairman's approval. There is no minute of dissent to the reports of the committee. In case it is not possible or convenient to hold a sitting of the committee for the consideration and adoption of a draft report, the chairman may, with the permission to the committee, finalize such report on the basis of the suggestions and comments received in writing from members.

7.4.26 Advance copies of the report as finalized by the committee is marked 'Secret' and sent to the concerned undertaking/ department/ audit and also to the finance department for verification of factual details. Relevant portions of the report or the entire report if based on audit paras, is sent to the accountant general for factual verification. It is enjoined on them to treat the contents of the report as secret until the report is presented to the house. On receipt of the comments of the undertakings/ departments, the chairman may

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make suitable modifications in the report to correct factual inaccuracies, if any, or may direct that the matter may be placed before the committee for consideration.

7.4.27 **Publicity to activities of the public undertakings committee:-** The assembly secretariat under the directions of the chairman, arranges suitable publicity through the bulletins and press, or the sittings of the committee and of its study groups for the information of the public.

7.4.28 **Monitoring of action taken on the report of the public undertakings committee:-** The ministry concerned is asked to furnish a statement showing the action taken by the government on the recommendations contained in the report of the committee within six months from the date of its presentation. In case no reply is received during the six months or the extended period, the matter is placed before the chairman for his order.

7.4.29 The statement showing action taken by the government on the recommendations contained in the report of the committee is put up with suitable comments to the study group appointed for the purpose for examination and then together with the recommendations of the study group placed before the chairman. Any point, which in the opinion of the study group or the chairman requires consideration by the committee, it is specifically referred to the committee. On the basis of the comments made by the study group and the suggestions of the chairman, if any, a draft report is prepared. The draft report is then considered by the study group and after it has been approved by the chairman, it is circulated to the members of the committee. The report is finalized by the chairman on the basis of comments received from members and after factual verification by the undertaking/department concerned, and presented to the house in the usual manner.

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Chapter 8

Financial Status of J&K State

8.1.0 Historical background:

8.1.1 So far as earlier periods of the history of Jammu and Kashmir are concerned, very little information about the finances of the state and the pattern of its management is available. Even with regard to the limited information and the figures that have been published in various documents from time to time, accuracy is doubtful. The accounts would be manipulated and availability of the sources of income exaggerated. Once estimates of revenue collections were thus drawn, even on inaccurate and insufficient data bank realization proceedings would be initiated accordingly. In this context, Lawrence in his famous book 'The valley of Kashmir' has observed:-

> *"It should be remembered that it is an old established custom of the officials of Kashmir to manipulate the accounts in such a way as to conceal from their masters the fact that the revenue was nominal and that the real collections fell short of the handsome income which existed only on paper. The glory which attaches to huge arrears, large population and enormous revenue is dear to the oriental rulers and I believe that many of the exaggerated ideas regarding financial capacity of the Kashmir valley are due to this sentiment".*

8.1.2 The sole aim of the rulers would be to fill their treasuries and add to their wealth after meeting expenditures sufficient to maintain their territory. Revenue collections also provided opportunities to them to show their might so that every subject of their kingdom could feel their authority. One such source, which has been exploited to the hilt in the past, was tax on land. Revenue from this source was not only easy to collect but sufficient to exhibit and enforce authority of the rulers also. Numerous stories are connected with the tyranny of collection of land revenue and it has played a vital role in moulding character of the people of the state.

8.1.3 Revenue realization under the above circumstances, could seldom maintain a reasonably respectful trend. These were not only exposed to the vagaries of nature but also to the unrealistic estimations and attitudes of the authorities.

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8.1.4 The collections during Shah Jahan's period were of the order of Rs. 37.5 lakhs per annum. At the time of death of Aurangzeb these were about Rs. 57 lakhs. By the end of eighteenth century when Afghans were in power total revenue ranging in between Rs. 20 to 30 lakhs only would accrue to the state exchequer, out of which also, according to the eye witness of famous historian and traveler, Mr. Foster a sum of Rs. 7 lakhs would go to Kabul treasury as Nazrana. This level of revenue came down further during Sikh period.

8.1.5 The rulers during earlier periods of the history had no direct contact with masses and would govern them through their representatives. The intermediaries have always exploited the authority vested in them for their self-interests and for getting favour from the rulers. Welfare of the masses and whether they would be able to bear the burden of land revenue recoverable from them would not concern them. Likewise such governments were unconcerned even about future repercussions of the most crude and un-scientific assessments and recoveries of the revenue. Mr. Moorcraft, first Englishman who visited the state in the year 1824 reported that not even one sixteenth of the cultivable area of land was under cultivation because of heavy land taxation and the crude manner in which it would be collected without taking into consideration various factors relevant to such taxation. In their eagerness to collect maximum possible revenue the governors would put even government posts to auction. A Kotwal had to pay Rs.30,000 per annum for continuation as such.

8.1.6 Obviously, such a system of financial administration of the state was bound to show its adverse effects. The land revenue could not yield the desired results and the financial position was rendered very difficult and strained. This particularly happened when sikhs ruled the state. During this period when the land revenue could not be collected according to the anticipations, the people were taxed even for their religious faiths. In some cases, such taxes, known as 'Nazarana' would range from Rs.15,000 to Rs.1 lakh per individual per year. Again, this was done without considering rationality behind such a measure, which therefore added to the sufferings of the masses and also aggravated the already difficult financial situation of the state. When the people could not face such tax collectors, most of them, both hindus and muslims were forced to migrate to the neighbouring parts of India.

8.1.7 During the same period the sikhs were defeated in their war against British and they were not able to pay war indemnity of Rs.75 lakhs.

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Thus, the province of Kashmir was taken away from the sikhs and given to Maharaja Gulab Singh who had agreed to pay the said amount to the British. Maharaja was in this behalf helped by a *Sahukar* (banker) named Dewan Jawala Sahai resident of Emambada who came forward with a loan assistance, which according to the anticipations of Maharaja could be repaid by him during a short period as it was expected that a substantial sum can be raised from the valley after its take over by him. Because of the financial help made available to the Maharaja, the Dewan rose very high in his estimation and became the first prime minister of Dogra Rule.

8.1.8 The requirement to liquidate his debt obligation made the Maharaja to envisage and implement a host of new taxes. According to Lawrence, "Nearly every thing save air in the valley was brought under taxation". The usual method was to make each product a state monopoly. In this process among other things, shawl industry, under the garb of its exaggerated potential was subjected to heavy taxation. The revenue from this particular tax rose from Rs.4 lakhs to Rs.12 lakhs.This Industry was crushed under this burden and the basic workers went on strike, which is perhaps the first attempt of the working class in India to stage a protest. The movement was crushed with a heavy hand, which disheartened the people, and about 4000 shawl workers fled to Punjab and thus created a serious problem for Maharajas revenue who had no other alternative but to appeal the people to come back and promised redressal of their grievances.

8.1.9 One salutary effect of such a situation was that Maharaja Gulab Singh started to think about reforms in his financial administration. A thinking was, developed that unless a complete and authentic account is available it may not be possible to have a reasonable assessment of the expected collections. Realistic estimation, would also lead to an effective and sound financial management. Thus, Dewan Kripa Ram took up the job of compilation of accounts. He submitted the account papers with detailed description of receipts and expenditure relating to Jammu, Kashmir, Ladakh and other areas, covering receipts in the shape of interests, profits, nazrana and taxes since 1852. The work done by this Dewan was taken as commendable. He was given a cash award of Rs.500/- and later appointed as a minister by Gulab Singh's successor, Maharaja Rambir Singh. This account compiled by Dewan Kripa Ram became basis for future accounting and budgeting processes in the state. This is an important contribution of the period in the field of financial

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management. The other techniques continued to be as crude as these were during earlier periods. Even the chief revenue collection assignments continued to be given on nazrana basis and the employees continued to get their salaries both in cash and kind (shali and singhardas).

8.1.10 Real financial management started to gain strength and footing during the rule of Maharaja Partap Singh (1885-1925). Though very little is known about the start, but it is recorded that regular budgeting processes started in the state from 1878-79. A mention of this fact is made in the annual administration report of the state published as "Majum-Barai-Sal 1881-82". During this period a thinking was developed that strength of the treasury is closely dependant upon the economic development of the state. Similarly, apart from traditional sources, possibilities of generating revenue with the help of new measures were explored. These new measures were also developed after a proper thought. Some of these include imposition of customs and excise duties for which proper laws were enacted in 1901. Such sources developed in the subsequent years became important heads of revenue. Adequate attention was given to the develop-ment of trade and commerce. New areas of investment were identified as a result of which both imports and exports from the state increased in volume and value.

8.1.11 This type of thinking and new approach to the fiscal management started to show the results. The total revenue, which was of the order of Rs.43.49 lakhs under all heads during 1888 rose to Rs.55.85 lakhs in a period of four years. In 1901 the revenue rose from Rs.77 lakhs to Rs.89 lakhs when the expenditure was Rs.72 lakhs.

8.1.12 The pattern of receipts and expenditures during the year 1923-24 under the main heads of account is tabulated hereunder: -

Pattern of Revenue and Expenditure in 1923-24

Revenue		Amount			Amount
Tax Revenue		**(Rs. lakhs)**	**Non Tax Revenue**		**(Rs. lakhs)**
1.	Land revenue and grazing fee	58.01	1.	Forests	61.08
			2.	Sericulture	41.76
2.	Customs	32.19	3.	Public works	09.39
3.	Excise	04.67	4.	Interest Receipts	04.23
4.	Stamps	04.92	5.	Others	13.22

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	Total	**99.79**
Expenditure		
General administration		
1	Tax Collections administration	12.51
2.	Maharaja and courts	31.94
3.	Police and jails	09.29
4.	Admn. of justice	03.95
5.	Political affairs	03.82
6.	Pensions and gratuity	03.58
7.	Admn. of public deptt.	07.77
8.	Stationary & printing	03.48
9.	Others	05.73
	Total	**82.07**

	Total	**129.68**
	Total Revenue	**229.47**
Social Services		
1.	Education	10.23
2.	Medical	05.84
3.	Others	03.69
	Total	**19.76**
Economic Services		
1.	Forests	22.90
2.	Public works	47.05
3.	Industries	18.36
4.	Others	00.84
	Total	**89.15**
Defence Services		**34.54**
Misc. Expenditure		**03.83**
Total Expenditure		**229.35**

8.1.13 It will be seen that bulk of revenue during this year also was realized from forests – a source very easy to tap, ignoring its implication of depleting an important natural resource having substantial impact on ecology and future of the state. This was followed by land revenue and grazing fee, again indicative of the fact that governance of the time was not that keen on reforms to bring about economic stability. On the other hand, the government would be more interested in taking easy and authoritative measures sometimes even with the objective of exhibiting that it is not cowed down by spear heading of the popular uprising movement which had already started in the state as in rest of the country. Imposition of custom duties would have the effect of dampening of inflow of even the essential commodities into the state, which would obviously result in these becoming scares and thus, costly for a common consumer.

8.1.14 In terms of the percentage of expenditure on different items to the total expenditure incurred during the year, the priorities were as under: -

➢ Economic Services	38.85
➢ Administrative services	30.33
➢ Defence services	15.06
➢ Social Services	08.61
➢ Tax collections	05.45
➢ Others	01.70
Total	**100.00**

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8.1.15 On the expenditure side although the outlay on economic services increased from Rs.89.15 lakhs in 1923-24 to Rs 153.47 lakhs during 1946-47 but the percentage of this outlay to the total budgeted expenditure registered a decline. This can mainly be attributed to the additional outlays provided for social services and the defence. Development of agriculture and allied services including irrigation started to figure in the expenditure plans of the state. Expenditure on these services was Rs.13.52 lakhs, which constituted 8.81% of expenditure earmarked for economic service. Maintenance of power houses involved an expenditure of about Rs.6 lakhs and sale of Power yielded net revenue of Rs.3 lakhs during 1946-47. In a period of about twenty year expenditure on education increased from Rs.13.20 lakhs (1926-27) to Rs.37.51 lakhs (1946-47) indicating an average annual growth of 14.20.

8.1.16 Government investments in various ventures reached a figure of Rs. 248.10 lakhs during 1946-47.

	(Rs. lakhs)
➢ Investment in loans (GP Notes)	230.50
➢ Investment in shares of J&K Bank Ltd.	5.00
➢ Investment on Jammu Suchetgar Railway	12.05
➢ Investment on shares of Kashmir Sheep Breading farm	0.15
➢ Investment on shares of Press syndicate	0.30
➢ Investment on shares of Pioneer Co.	0.10

8.1.17 During this period both imports and exports increased, the import from Rs.93.20 lakhs to Rs.122.85 lakhs and export from Rs.83.21 lakhs to 100.24 lakhs. There was a marked fall in the prices also.

8.1.18 During the period of Maharaja Hari Singh (1925-47) the growth of income and expenditure was as under:-

➢ **INCOME**

	1926-27		1946-47	
	Amount (Rs. lakhs)	**%age of Total**	**Amount (Rs.lakhs)**	**%age of Total**
Tax Rev	105.89	43.73	274.56	51.05
Non-Tax	136.25	56.27	263.25	48.95
Total	**242.14**	**100.00**	**537.81**	**100.00**

➢ **EXPENDITURE**

	1926-27		1946-47	
	Amount	**%age of total income**	**Amount**	**%age of total income**
Admn. services	85.05	34.09	140.21	30.13
Social services	23.71	09.50	53.55	11.51

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Econ.services	98.09	39.31	153.47	32.98
Defence	38.57	15.46	100.59	21.62
Misc.	04.10	01.64	17.48	03.76
Total	**249.52**	**100.00**	**465.30**	**100.00**

8.1.19 Maximum Revenue during 1946-47 accrued to the state from customs (Rs.145.42 lakhs) which was followed by forests (Rs.103 lakhs) and sericulture and other industries (Rs.80.24 lakhs)

8.1.20 Some of the other important developments in the fiscal and economic fields during the pre-independence period (Dogra rule) have been as under: -

01 The state, remotest part of India with difficult terrain had to manage and live with its own resources. Lack of proper communication with rest of the world at the same time was also a serious and real difficulty. Efforts made to improve means of transport and communication during this period have to be valued. Some of measures initiated in this behalf are listed as under:-

- Providing of telegraphic lines as between Srinagar and Frontier (Ladakh & Gilgat) by Maharaja Rambir Singh at the beginning of 20th Century.
- A Survey to connect Kashmir with Punjab by railway was completed at the end of 19th Century. Implementation of this scheme had however to be abandoned because it needed Rs. 2.5 crore at that time.
- During Partap Singh's period two important roads were constructed to link Kashmir with rest of the country. Srinagar-Kohala road was constructed in 1882 and thrown open to the public in 1892 – construction of Banihal cart road was started in 1911-12 and was opened in 1924.
- Small gauge railway lines were constructed between Jammu and Sailkote in 1890.
- Road transport actually started operating in the beginning of 20th century when lorries and motors started plying on the roads.

02 The State had its own currency mint. Different coins were used in olden days. It was in the year 1898-99 that english coins replaced state coins called 'Chilki'.

03 Ranbir Singh started cultivation of hops which proved successful and during Partap Singh's earlier days the state had its own brewery as a result of which grape cultivation got

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a boost, having also been encouraged by giving of subsidies to the cultivators– 'Dachi Repore' is thus creation of this period.

04 Sericulture was developed on modern lines by use of electricity in place of fuel.

05 In the field of social and community services, the first water reservoir for piped water supply was constructed in 1886.

06 The education started to receive attention from 1884-85 when some students were encouraged to appear in matriculation/middle examination of Punjab university at government expenses.

07 In this beginning of 20th century first hydro electric stations were constructed one each in Kashmir and Jammu provinces.

08 Land settlements were completed by the close of 19th century.

8.1.21 The above facts should in no way be taken as indicators of prosperity during these days. General masses would always be the sufferers and ignorance was rampant throughout the autocratic rule. Some of the developmental works taken up in the later part of the pre-independence era were mostly designed to keep taste and sophistications of rulers and their close associates. The requirement for creating infrastructure was considered necessary for adding to the avenues of revenue earnings. Effect of such programmes were seldom for common benefit although some times some of such schemes can be attributed to the persistent public demand, which was acquiring new dimensions because of the process of political awakening within and outside the state.

8.1.22 By and large, the masses were subject to torture, which would at times be heart rendering and un-bearable. When the days of autocratic rule were about to come to an end in 1947, the situation was further aggravated because of the attack of the raiders with the help of Pakistan. Effects of this war were so grave that the state government had no resources even to foot the salary bill of its employees. The situation was controlled with the help of a loan assistance of Rs. 105 lakhs from the government of India made available by them on the request of the state government.

8.2.0 Dawn of independence:

8.2.1 Dawn of independence was a very difficult period for the state of Jammu & Kashmir as compared to other parts of the country.

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Accession of this princely state to the domain of India was delayed and is still limited because of various reasons like the state with majority of muslim population was ruled by a hindu monarch, both India and Pakistan staked a claim on this territory, the maharaja was toying with the idea of Independence, the people were not, by and large, enthusiastic about joining Pakistan, raiders from that country invaded the valley who were pushed back causing emergence of a line of actual control which has resulted in separation of some portion of the valley being on the other side of LoC. The UN commission for India and Pakistan had resolved (on 13.08.1948) that it would determine the status of J&K "in accordance with the will of the people" etc. under these circumstances article 370 was incorporated in the Indian constitution which limits the powers of the parliament to make laws for J&K. At the initial stage the India controlled defence, foreign affairs and communications only in respect of this state and allowed it to have its own constitution. This political scenario further complicated already precarious law and order as also socio-economic conditions of the state, more so, when the state government had to meet all the obligations from out of its own resources in absence of the financial tie ups with the central government as envisaged in the Indian constitution for other parts of the country, which were concluded at a later stage in the year 1957.

8.2.2 In 1947,- J&K was one of the least developed states, which was reflected in abysmal mass poverty, deprivation hunger, disease and ignorance". Pt. Girdhari Lal Dogra finance minister of the first popular govern-ment of the J&K has summed up the financial position of the state while presenting review of the budget for the year 2005 AD (1949) and estimates of receipts and expenditure for 2006 (1950) to its legislative assembly as under:-

01. Time honoured policy of the autocratic government has been to draw estimates of receipts and expenditure for diverting huge portions of the revenue to the civil list allowances of the members of the ruling family in so called reserved departments making insignificant allotment of funds for general beneficent services and nation building schemes.

02. "Kashmir's economy was inextricably linked with Pakistan: timber, which provided a third of state's revenue, was marketed via Pakistan, as were most other produce and goods; all the food, fuel and power had to be imported and all rail and all weather road traffic was through Pakistan." Blockade caused by that country created a situation of starvation for the people of the state.

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03. Besides chests of PWD, electric and forest departments, treasuries at Karnah, Uri, Handwara, Muzaffarabad, Skardu, Mirpur Rajouri, Bhimber, Gilgit Gupis and Chilas were looted by the Pakistani raiders resulting in a cash loss of Rs. 12.29 lakhs in the treasuries only. Apart from these cash losses, the raids brought about a further set back of Rs. 76.51 lakhs on account of remission of forest royalties, which had to be sanctioned in case of a number of leases.

04. Punitive taxes and fines inflicted on persons guilty of national patriotism had to be refunded.

05. A major section of the state population was on 'starvation' level. They had therefore, to be provided with food grains and other essentials of life on highly subsidized rates, importing these from other parts of the country. For this purpose not only the roads and other communication links were inadequate but transportation was also a serious problem because of limited availability of load carriers etc. In short " the infrastructural bottle necks had crippled the state economy and accentuated the poverty syndrome". Rehabilitation of refugees was also a major issue besides, maintenance of widows and orphans.

06. Whatsoever, little economic development infrastructures available in the state like irrigation and food control, power, road transport etc were in shambles and had to be brought on rails beside planning and executing their extensive up-gradation expansions and extensions.

07. Floods were so common that all most fifty percent crop would be lost every year. Vast areas of land were out of cultivation because of this and other managerial problems causing very low yield and benefit to the farmers.

8.2.3 Above all, administrative machinery was in shambles. Economic and other laws were not efficient and development oriented. A new framework had therefore, to be created to meet the new challenges more so for rapid economic reforms for which expectations of the masses were high as a result of the promises extended to them in the concept of "Naya Kashmir" and any feeling created that the government is not moving in that direction would be provocative, giving handle to the disruptive elements who would be waiting for such a situation to emerge.

8.2.4 In the said dispensation the state budget for the year 1947-48 indicated a deficit of Rs. 201.99 lakhs to be met, to the extent of

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Rs.105 lakhs by raising loans from the government of India and withdrawal of Rs. 96.99 lakhs from cash reserves. It has to be noted that this deficit could have been at a much more higher-level but for lack of identification of the real needs of the state and inability to respond thereto as a result of limited availability of financial resources. The pattern of expenditure during this year being as under:-

Service	Amount spent (Rs. lakhs)	%age of total
➢ General services	255.24	62.62
➢ Social services	046.12	11.32
➢ Economic services	106.21	26.06
Total	**407.57**	**100.00**

8.3.0 Prior to financial integration:

8.3.1 Soon after the popular government look over it was found that a massive effort is required to develop the state, which lagged far behind the national average, with per capita income of Rs. 208 (at 1960-61 prices) and a literacy rate of 5% in 1950. It was not possible to reach the desired goals of economic and other development without forging a financial integration with the union of India. This process started in the March, 1950 when the planning commission of India was set up and the state fitted itself into this new mechanism. Since no other constitutionally valid mechanism was available the central government helped the state by advancing loans to it for implementation of its developmental plans. Level of these loans rose to Rs. 424 lakhs in 1954-55 when it was Rs. 95 lakhs during 1948-49. Finding that, this limited assistance was by no means sufficient to meet various expenditure obligations, a thinking process was set in to find out as how to avail full benefit of fiscal federalism as was available to other states of the country under Indian constitution. The state leadership was convinced that the available model of fiscal federalism was best to rectify imbalances that exist between different states so far as their standard of living and other economic factors are concerned. On this basis, the state gradually accepted jurisdiction of the finance commission, planning commission and comptroller and auditor general of India by securing suitable enactments under enabling provisions of the article 370 of the constitution. The process was culminated in the year 1957, as a result of which the state acquired the same status in financial matters as is enjoyed by other states. It will be interesting to note the behaviour of the state budget prior to financial integration

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with rest of the country. An attempt has been made to bring out the same in the following table:-

S.No.	Particulars		Years/Amount (Rs. lakhs) 1947-48	48-49	54-55	55-56
1.0	**Revenue receipts**					
1.1	**States tax revenue**					
	01	Income tax	09.88	08.35	00.18	-
	02	Customs	56.33	95.22	15.51	-
	03.	Excise duty	08.99	10.72	15.63	17.32
	04.	Land revenue	65.62	45.25	52.65	59.52
	05.	Others	19.37	20.55	35.61	16.71
		Total 1.1	**160.19**	**180.09**	**119.58**	**93.55**
1.2	**Non tax revenue**					
	01	Forests	28.88	29.11	80.03	90.08
	02	Industries	47.38	63.60	44.34	50.00
	03.	Posts & Telegraphs	03.03	02.34	-	-
	04	Army	04.91	03.59	04.09	-
	05	Power	08.53	11.32	19.82	15.08
	06	Irrigation	02.01	02.80	08.71	07.25
	07	Others	19.52	15.10	35.86	83.38
		Total 1.2	**114.26**	**127.86**	**192.85**	**245.79**
1.3	**Contribution of GOI on a/c of IT & customs etc.**		-	-	242.00	253.86
	Total 1.0		**274.45**	**307.95**	**554.43**	**593.20**
2.0	**Expenditure within revenue a/c**					
2.1	**General services**					
	01	Organs of state	37.72	13.92	13.01	17.88
	02	Gen. Admn.	52.66	54.18	93.94	101.80
	03	Army/Malaysia	111.68	100.11	46.83	60.00
	04	Pensions etc.	13.59	13.15	19.86	20.71
	05	Interest	04.64	03.91	10.33	44.82
	06	Others	34.95	40.24	54.69	60.95
		Total 2.1	**255.24**	**225.51**	**238.66**	**306.16**
2.2	**Social services**					
	01.	Education	33.68	32.10	57.14	59.89
	02.	Health	12.18	15.41	26.14	27.07
	03.	Others	00.26	00.74	-	09.70
		Total 2.2	**46.12**	**48.25**	**83.28**	**96.66**
2.3	**Economic services**					
	01	Agriculture	08.24	25.78	29.16	47.61
	02	Forest	20.15	20.62	26.59	31.52
	03	Power	06.06	11.20	16.40	11.66
	04	Industry	43.27	27.14	43.80	51.26

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	05	Roads & Bridges	25.26	34.65	59.83	53.94
	06	Irrigation and flood control	03.23	17.83	14.13	19.50
		Total 2.3	**106.21**	**137.22**	**189.91**	**215.49**
		Total 2.0	**407.57**	**410.98**	**511.85**	**618.31**
3.0	**Capital expenditure**					
	01.	Public works	01.88	00.86	79.24	-
	02.	Education	-	-	13.24	-
	03.	Health	-	-	17.07	-
	04.	Water supply & Sanitation	-	-	24.16	-
	08.	Housing	-	-	01.99	-
	06.	Agriculture	-	-	39.27	-
	07.	Irrigation & FC	-	03.66	66.73	-
	08.	Industry	(-) 03.75	(-) 02.67	16.85	-
	09	Transport & communication	00.07	-	-	-
	10.	Tourism	00.23	00.01	08.11	-
	11.	Power	01.47	00.95	61.64	-
	12.	Others	-	00.83	205.46	-
		Total 3.0	**00.77**	**03.64**	**533.76**	**542.53**
4.0	**Loan and advances (net)**		**-**	**-**	**189.79**	**13.50**
5.0	**Debts (net)**					
	01.	Internal debts	248.00	300.98	-	-
	02.	Loans from GOI	105.00	95.00	424.00	439.47
		Total 5.0	**353.00**	**395.98**	**424.00**	**439.47**
6.0	**Public A/c (net)**		**69.00**	**72.02**	**140.89**	**94.45**

8.3.2 **Interim financial support from GOI:-** It will be seen from the figures given in the foregoing table that during the period when the state was not regulated by the constitution of India in respect of matters relating to the fiscal federalism, an interim arrangement was developed whereby contributions would be made by the GOI on account of surrender of income tax and customs which amounted to Rs. 242 lakhs in 1954-55 getting raised to Rs. 253.86 in 1955-56. In addition, the central government would give loan assistance for implementation of developmental programmes. Initial loan of Rs. 105 lakhs advanced to the state in 1947-48 to overcome urgent rehabilitation problems, got raised to the level of Rs.439.47 lakhs during 1955-56, when it was related to the implementation of states developmental plans. During the years 1954-55 and 55-56, these plans were funded both by internal resources as also from loan given by the central government as shown in the following table:-

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	1954-55	55-56 (Rs. lakhs)
➢ Internal revenue plan :	076.25	122.77
➢ Central assistance plan:	258.75	419.76

8.3.3 The optimum level of revenue from income tax, customs and posts and telegraphs would be around Rs. 146 lakhs in 1946-47. Annual growth of these sources of income could not be less than 10% compounded which in other words means that this income could be around Rs. 400 lakh in 1955-56. As against this the level of grants and loans received from GOI had reached Rs. 687.05 lakhs (1955-56). This central assistance was only adhoc, not assessed through the mechanism of the finance commission and can be termed as discretionary transfer of resources from the centre to the state.

8.4.0 Post financial integration period :

8.4.1 The state was brought under consideration and making of recommendations with regard to devolution of resources from centre to the state in accordance with the provisions made for the purpose in the Indian constitution for the first time by the second finance commission. With this a new era started for the financial management of the state as the centre extended playing its "role in the sphere of revenue as well as expenditure as an instrument to make adjustments necessary to off set the low revenue yielding-high need states as against the high revenue yielding –low need states" to the state also.

8.4.2 Twelve finance commissions have so far given their recommendations which are applicable ending 2009-2010. Whereas first ten commissions have given recommendations with regard to individual taxes and duties falling under divisible pool, the eleventh and twelfth commission has consolidated these and recommended distribution of their net divisible proceeds with reference to various parameters as already mentioned in chapter 2.0.0.

8.4.3 The trend of transfer of resources from centre to the state pursuant to the recommendations of the finance commission has behaved as indicated in the following table:-

Component	Year/Amount (Rs.crores)					
	1956-57	60-61	65-66	79-80	94-95	2003-04
Grants-in-aid	3.20	5.27	11.91	94.47	2126.60	5591.43
Share in taxes			2.58	26.13	562.60	813.58
Total	**3.20**	**5.27**	**14.49**	**120.60**	**2689.20**	**6405.01**

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%age of state revenue receipts	3	4	46	59	87	78

8.4.4 One of the important constituents of other assistance provided to the states by the finance commission relates to debt relief.

8.4.5 The following table indicates debt relief to states as recommended by finance commission (7th to 10th) and share of J&K state therein.

	Total relief	(Rs. crores) Relief to J&K
• Seventh finance commission	1969.20	133.43
• Eighth finance commission	2285.39	212.72
• Tenth finance commission related to the GDP		
- Estimated at 5%	555.92	11.71
- Actual at 5%	211.67	9.54
- Estimated at 10%	1131,83	23.41
- Actual at 10%	218.82	13.16

8.4.6 The11th finance commission has not worked out the quantum of relief that will be available to each state, as it would ultimately depend upon the fiscal improvements that may be effected.

8.4.7 The twelfth finance commission has apart from recommending debt relief by way of consolidation, reschedulement and reduction in interest rates also recommended giving of incentives to the states by way of reduction in their debt liability to correspond to the improvements in the fiscal performance brought about by them over a predetermined base level arrived at by the commission. Out of a total relief of Rs. 33204.56 crores given on this account the share of J&K state is Rs. 425.40 crores.

8.4.8 It will be seen from the figures given in **Annexure-2.08** of chapter 2.0.0 that J&K is one of the only four states of the country who have been assessed with surplus base by the twelfth finance commission which is also the highest being Rs. 647 crores. If the state is not able to retain this level of surplus, it will not be entitled to any debt relief. In that situation, therefore, the state will have to bear the annual repayment burden of Rs. 94.77 crores as worked out in the same annexure. The surplus base as worked out by this finance commission has, therefore, to be sustained by taking all the necessary measures.

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8.4.9 Similarly, the 12th finance commission has found that the J&K state has 1.65% as its share in total debt of the states towards central government when it ranges between 0.13 to 11.90. Debt GSOP ratio of the state is 53.80% when it should have been within 25% at the best. Improvement has, therefore, to be brought about in these parameters.

8.4.10 Total indebtedness of the state as at the end of the year 2003-04 has been as under:-

	(Crore of Rupees)
Towards GOI	4098.16
Internal debt of the state	4805.67
Small savings, provident funds etc	2870.43
Reserve funds	0769.88
Deposits and advances	0488.19
Total	**13032.33**

8.4.11 Internal debt of the state mainly comprises:-

J&K Bank	1546.51
Market borrowings	2117.23
Insurance companies	14.34
National Bank for agriculture & rural development	353.40
National Small Savings Fund	338.49
Others	435.70
Total	**4805.67**

8.4.12 Other important areas covered by the recommendations of the finance commission relate to meeting the eventualities of natural calamities and strengthening of local self-administration in the state. For natural calamities every state has a NCRF to which centre also contributes. The twelfth commission has fixed size of this Fund at Rs. 21333.33 crores to which central government has to contribute Rs. 16000 crores during 2005-10 (75%) and the balance amount (25%) by the states. The share of the J&K state in the central contribution has been fixed at Rs. 343.89 crores. Similarly, for strengthening of local self-government at various levels, the state will get Rs. 319 crores out of the total allocation of Rs. 25000 crores made for all the states.

8.5.0 Developmental Expenditure:

8.5.1 Whereas the finance commission has to regulate transfer of resources from centre to the states in accordance with the pre-determined constitutional stipulations, the planning commission has to have flexibility in handling the matters brought within its ambit

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which generally speaking are directed towards formulation and implementation of economic developmental plans in accordance with the parameters of fundamental rights and directive principles as also " the declared objectives of the government to promote a rapid rise in the standards of living of the people by efficient exploitation of resources of the country, increasing production and offering opportunities to all for employment in the services of the country". The planning commission, therefore, enables integrated economic development without any encroachment on the powers of the states. In this back drop the J&K state has been part of the planning process of the country. As a result, the growth of investment in different sectors of development is reflected in the following table:-

Plan period	Sectors of development							
	Agri	CD	I&P	I&M	T&C	S.C.	Others	Total
1st Plan (1951-56)	0.52	0.37	4.88	0.66	3.06	1.78	0.24	11.51
4th Plan (1969-74)	22.60	2.67	67.70	7.48	29.05	26.03	7.31	162.84
6th Plan (1980-85)	169.01	13.46	211.79	59.83	107.91	276.58	159.57	918.15
9th Plan (1997-02)	1089.44	146.36	1612.90	226.68	402.11	2321.86	1743.52	7542.88

8.6.0 Infrastructural development:

8.6.1 As a result of being a part of national planning process, the state has been able to undertake infrastructure development in various sectors of economic development. Cumulative expenditure thus booked ending the year 2003-04 as computed by the state accountant general in finance accounts 2003-04 is as under:-

	Amount (Rs. Crores)	%age of total
General services	516.27	3.47
Social services	3903.27	26.21
Economic services	10472.48	70.32
Total	**14892.02**	**100.00**

8.6.2 Investment under economic services is inclusive of that made in state public sector undertakings from time to time as per following broad details:-

	Amount (Rs. Crores)
Statutory corporations	142.52
Government companies	183.00

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➢	Other joint stock companies	0.35
➢	Cooperative institutions	24.06
	Total	**349.93**

8.6.3 In absolute terms, the socio-economic infrastructures available in the state under important sectors is briefly described as under: -

01. **Work force**: - The state has an active work force of 36.89 lakh souls comprising 25.37 lakhs as main workers and 11.52 lakhs as marginal workers.

02. **HRD**: - The state has five universities including 2 in the field of agricultural education. Two universities are in the pipeline. Mata Vaishno Devi University is with main thrust on IT. Thus, special emphasis is laid on development on human resources. There are around 18000 schools with an enrollment of 1.7 million students. Similarly, there are 33 colleges, 13 professional institutions including 5 engineering colleges, 8 polytechnics and 37 ITIs. The present availability of human resource as per live register of employment exchanges include 27246 graduates and postgraduates, 7695 degree/diploma engineers, about 5000 ITI trained personnel besides more than 8000 other skilled personnel. The state is also giving thrust on developing connectivity as between education and industrial development through special programmes, both long and short term.

03. **Electricity**: - The state has a potential of generating 18000 MWs of hydropower. The current installed capacity is 538 MWs in the state sector and 950 MWs in the central sector. The state government is conscious of the limited availability of power and to over come this constraint, the sector has been put on fast track. Apart from small ones, two major projects with an aggregate capacity of 1050 MWs i.e. Baglihar (450 MWs) & Sawal-kot (600 MWs) have already been started, former scheduled for commissioning in 2006 and the later in 2012. Similarly, the centre/NHPC have also taken up Bursar (1000MWs), Pakaldok (1020 MWs) and Sewa-II (120 MWs in advance stage). Power from outside sources is also purchased in substantial quantities. As a result of these efforts availability of power which was 3006 lakh KWHs in 73-74 has been raised to 62,973 lakh KWHs in 2002-03. In the meanwhile, the entrepreneurs are allowed to set up captive power generating stations free of electricity duty and state excise. 100% subsidy is also allowed on DG sets of 10-1000 KWs. The power supply to industry is given priority besides being subsidized.

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04. **Roads/Rail**:- The terrain of the most of the areas of the state is difficult. It has, therefore, insignificant rail links. A vast network of roads has, however, been developed to connect even the remote areas. A national highway passes through all the focal points, which connects the state with rest of the country. The total road length maintained by the state excluding national highway has been 14858 kms at the end of 2002-03 when it has been hardly 7935 kms at the beginning of 1980-81. Railway available upto Jammu has been extended to Udhampur. Development of rail links within the Valley are also in advanced stage of completion.

05. **Road transport** : The strength of this fleet plying on state roads has grown from 6592 in 1971 to 398452 as on 31.03.03. This is further supplemented by the outside fleet plying on state roads under national permits.

06. **Civil aviation**: The state has three civil airports at Srinagar, Jammu and Leh. Air connection of the state with rest of country is proper for movement of humans and materials.

07. **Telecommunications**: The state has a network of telephone exchanges looking after 210790 telephone connections in main and 5820 such connections in extensions as at end of 2001-02, which got a tremendous fillip thereafter. ISD and STD facilities are also available adequately in cities and towns pr sently through BSNL. Mobile phones have also entered the state through national level players. This is equally true about space connectivity through electronic and telecommunication modems.

08. **Financial institutions/commercial banks**:- The national level prime lending institutions, IDBI, SIDBI, NSIC and NABARD and the like are actively operating in the state besides J&K SIDCO and J&K SFC. The institutions are providing term loans in accordance with the schemes evolved for the purpose at the national level so that pumping in of institutional finances in the industry is according to the requirements. Working capital credits are given by commercial banks. There were 746 branches in the state in March 1990 which have risen to 829 the end of March, 2003 and are fast increasing qualitatively and quantitatively. Mechanization of the banks and financial institutions has become order of the days. The customer facilities including on line banking in the state favourably compares to those available in rest of the country. Added advantage is that the banking industry is now active in improving debt-deposit ratio to arrest the trend of flight of capital from the state, most of

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the benefit where of is reaped by the industrialists and business community.

09. Jammu & Kashmir development finance corporation (JKDFC) shall be set up by the central government with a one time provision of Rs. 50 Crore on the lines of north east development financial corporation. This corporation shall provide term loan, working capital and other infrastructural support in the state, of Jammu and Kashmir in the lines of NEDFI in the north east. JKDFC would be designated as the Nodal Agency for routing the subsidies/incentives under various schemes notified under this policy.

10. **Health Care**:- There is one medical institute, 5 medical colleges, 114 hospitals, 372 primary health centres and 3249 medical sub-centres with a total bed strength of more than 12177 in the state. This trend of health cover is fast increasing on sustained basis bringing within its ambit modernization as well.

11. **Key material** :- Some efforts have also been made in development of key material industry by encouraging setting up of steel and cement plants. Steel Authority of India and other infrastructual material manufacturing industries are well operating in the state.

12. **Industrial estates/areas**:- The state government has established and is developing industrial estates/areas both for general & specific industrial purposes. The GOI is also supplementing these efforts. These industrial estates/areas provide reasonable infrastructure facilities to reduce the capital investment requirements of the entrepreneurs. There are 48 industrial estate/areas located in different districts of the state inclusive of 6 estates, which are in the process of development. The district-wise details of these estates are tabulated as under:-

S.No	District	No.	S.No	District	No.
01.	Srinagar	07	02.	Budgam	02
03.	Anantnag	05	04.	Pulwama	05
05.	Baramulla	05	06.	Kupwara	02
07.	Jammu	09	08.	Udhampur	03
09.	Kathua	05	10.	Rajouri	01
11.	Poonch	02	12.	Doda	01
13.	Leh	01	14.	Kargil	01
				Total	**49**

The places cover a 24270 kanals. The major industrial estates/ areas which under development at present are EPIP

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Ompora Kashmir 1000 kanals IGC Lassipora Kashmir 6300 kanals. Setting up of a silk parks and development of phase-II, IGC Samba. The following infrastructure development projects have also come up:-

01. Food processing park at Khunmoh Kashmir to provide infrastructure support to the food/agro processsing industry.
02. Leather products including training, design and development project in existing IGC's.
03. Up-gradation of electronic complex Rangreth and providing of a Software Technology Park (STP), a project sponsored by Ministry of commerce GOI under critical infrastructure balancing scheme (CIBS)
04. Development of park for diamond cutting and Gem Jewellery processing at Jammu and Srinagar including setting up of training cum-production centers.
05. Inland clearance depot (ICD) Bari-Brahmana Jammu.

8.6.3 The important economic indicators of development of the state as compared to all India levels are tabulated as under:-

S. No	Indicator	Reference	State level	Country level
01	Literacy	as %age of population (Yr. 2001)	54.46	65.38
02.	Work force (Main)	as %age of population (Yr. 2001)	25.19	30.55
03.	Per capita income	at current prices 2000-01 (Rs.)	12399	16487
04.	Avg. road length	per 1000 s. kms	212	779
05.	Population per bank	as in 2001-02 (000 Nos.)	12.22	15.47
06.	No. of Trucks	Per lakh of population (Nos.)	251	263
07.	Per capita power consumption	KWHs in 98.99	292	360
08.	Villages electrified	%age of total villages 2000	97.5	86.3

(Source J&K digest of statistics 2002-03)

8.7.0 Overall budgetary position:

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8.7.1 The budgetary position of the state under different account heads at periodical intervals is indicated in **Annexures 8.01 to 8.03**. On the basis of this information general behavior of the budget of the state after it attained independence has been as under:

(Rs in Crores)

Year	Revenue account			Capital account			Overall
	Income	Expen-diture	Deficit(-)/ Surplus (+)	Receipts	Payments	Deficit(-)/ Surplus (+)	Deficit (-)/ Surplus (+)
1947-48	2.47	4.08	(-) 1.61	30.54	29.13	(+) 1.41	(-) 0.20
48-49	3.08	4.11	(-) 1.03	30.76	28.40	(+) 2.36	(+) 1.33
54-55	5.54	5.12	(+) 0.44	59.13	59.13	(+) 0.40	(+) 0.84
65-66	31.67	32.47	(-) 0.80	79.96	86.97	(-) 7.01	(-) 7.81
78-80	203.88	189.84	(+) 14.04	966.06	973.17	(-) 27.11	(-) 13.07
94-95	3088.32	2526.35	(+) 561.97	9910.04	10477.54	(-) 567.50	(-) 5.53
2003-04	8211.67	7754.17	(+) 457.50	29107.23	29585.54	(-) 478.31	(-) 20.81

8.7.2 It is interesting to note that the state has surrendered an annual net income of Rs. 1.10 crores at 1948-49 level under income tax, excise duty and customs to GOI as a result financial integration. The income from these sources could not have stretched beyond say Rs. 300 crores against which the state is getting a share of Rs. 814 crores (2003-04 actual). The aggregate transfer of resources from centre to the state at current level based on accounts for 2003-04, works out as indicated in the following table:-

		(Rs. Crores)
1.0	**Receipts**	
1.1	Share in taxes	814
1.2	G.I.A.	5591
1.3	Loans from GOI	718
	Total 1.0	**7123**
2.0	**Repayments**	
2.1	Interest on loans	378
2.2	Repayment of Debts	1220
	Total 2.0	**1598**
3.0	**Net receipts**	**(+) 5525**

8.7.3 It will be seen from the above table that during the year 2003-04 the inflow of central loan has been far less compared to its out flow. Servicing of debt during this year has involved Rs. 1598 crores against which the GOI has advanced an amount of Rs. 718 crores

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only. In other words, there has been a net outflow of Rs. 880 crores. on account of central loans during this year.

8.7.4 Inspite of substantial investment reported to be of the order of Rs.4782 crores (as at the end of the year 2003-04), the state has not been able to derive corresponding benefits from the power sector. The identified potential of 15000 MWs has been harnessed to the extent of hardly 4.5%. Very heavy losses are incurred on supply of the energy through public distribution system. The losses are attributed to declining level of states own generation, a very low level of tariff and abnormally high transmission and distribution losses. The energy accounting and audit does not also follow an effective system with the result that authentic data with regard to the availability and distribution of energy is not developed for various managerial purposes. The gap between receipt and expenditure in this sector started widening from 1990's and it reached a Rs. 246.03 crores in 1993-94 and started mounting thereafter from year to year reaching Rs. 1089 crores in 2003-04.

8.7.5 Other disturbing features are heavy net out flow in respect of the following heads from 1990 on wards:- **(Rupees crores)**

	Head	1990	2003-04	%age
-	Interest on borrowings	188	1200	538.30
-	Pension & other retirement benefits.	41	677	1551.22

8.8.0 General recommendations to improve the financial health of the states

8.8.1 In addition to the recommendations of the finance commissions, Dr.Madhav Godbole-Committee on economic reforms of the state has also given a detailed report in 1998. While dealing with new focus on state budgeting the committee has given the following recommendation:-

"Even in the states with comfortable financial position, budget-making should not be looked upon as a routine accounting exercise of matching revenues and expenditures. It must take a long-range view on financial planning. The budget exercise must encompass both the short-term and long-term goals. It must reconcile the often conflicting goals propounded by various arms of government. Simultaneously, it should put forth mutually consistent set of policies.

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"These signposts assume greater significance in a situation such as in J&K with its precarious financial condition. The State Government must endeavor, through its budget, to evolve comprehensive policies on a number of issues facing the Sate Government. These should ideally include, among others, the following: augmentation and diversification of tax and non-tax revenues: reduction in cost of collection of revenues; raising of loans from the market and the ceiling thereon, keeping in view the capacity of the State Government to service the loans; ceiling on government guarantees; review of subsidies in terms of their quantum and focus; levy of fees and user charges, efficacy of expenditure control; comprehensive expenditure strategy: down-sizing of State Government; enhancing the role of the private sector; value for money audit, bringing in greater transparency and accountability; review of the role of State public sector enterprises; devolution of functions and powers to urban and rural local bodies and last, but not of the least importance, ensuring integrity of the budget exercise".

8.8.2 The recommendations given by this committee are contained in **Annexure-8.04.**

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Annexure-8.01
(Ref. Para 8.7.1)
GROWTH OF REVENUE RECEIPTS

Source of revenue	Years/Amount (Rs. lakhs)						
	1947-48	48-49	54-55	65-66	79-80	94-95	2003-04
State tax revenue							
Income tax	09.88	08.35	00.18	-	-	-	-
Excise duty	08.99	10.72	15.63	-	-	-	-
Customs	56.33	95.22	15.51	-	-	-	-
Land revenue	65.62	45.25	52.65	42.53	72.04	180.71	318.10
Sales tax	02.16	01.74	08.38	00.93	1279.90	9319.29	67365.48
Road toll	09.91	14.17	19.22	207.05	990.08	461.81	18262.63
State excise	-	-	-	21.69	954.56	12335.75	20483.45
Stamps & regd.	07.30	04.54	08.01	2.26	137.76	591.26	3357.77
Others	-	-	-	635.41	338.92	1324.06	7624.25
Total 1.0	**160.19**	**180.09**	**119.58**	**909.87**	**3773.26**	**24212.88**	**117411.68**
Non-tax revenue							
Int., dividends	02.98	5.62	15.65	60.34	189.19	8375.35	13389.59
Posts & telephone	03.03	2.34	-	-	-	-	
Forests	28.88	29.11	80.30	133.68	2542.52	1137.76	5634.82
Electricity	08.53	11.32	19.82	115.10	897.85	4425.28	36822.09
Irrigation	02.01	2.80	8.71	64.90	20.34	53.74	246.58
Army	04.91	3.59	4.09	-	-	-	-
Industries	47.38	63.60	44.34	24.40	43.76	54.41	545.47
Others	16.54	19.48	36.43	409.40	861.63	1653.32	6614.91

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Total 2.0	**114.26**	**127.86**	**434.85**	**807.82**	**4555.29**	**15699.86**	**63253.46**
Transfers from Centre							
Grant in aid	-	-	-	1191.04	9447.16	212659.55	559143.14
Share in taxes	-	-	-	258.15	2612.62	56259.89	81358.39
Others	-	-	-	0.39	-	-	-
Total	-	-	-	**1449.58**	**12059.78**	**268919.44**	**640501.53**
Grand Total	**274.45**	**307.95**	**554.43**	**3167.27**	**20388.33**	**308832.18**	**821166.67**

Annexure-8.02

(Ref. Para 8.7.1)

Expenditure within revenue account

	Years/Amount (Rs. lakhs)						
	1947-48	**48-49**	**54-55**	**65-66**	**79-80**	**94-95**	**2003-04**
General Services							
Organs of state	37.72	13.92	13.01	113.69	195.25	1190.03	5306.83
Collection of taxes	23.49	16.52	24.49	75.40	429.63	2322.59	5081.11
Interest on debts	4.64	3.91	10.33	60.34	551.30	62887.56	124600.84
Admn. Service	52.66	54.18	93.94	59.45	2357.85	31131.99	134666.80
Pensions/Gratuities	13.59	13.15	19.86	60.10	384.52	9579.42	67710.20
Misc Gen. Services	11.46	23.72	30.20	335.39	-	10.78	4.99
Army/Militia	111.68	100.11	46.83	388.25	-	-	-
Reserves	-	-	-	-	-	-	-
Total 1.0	**255.24**	**225.51**	**238.66**	**1092.62**	**3918.55**	**107122.37**	**337370.77**
Social Services							

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Education Art & Cult	33.68	32.10	57.14	419.13	3374.24	34903.84	86055.44
Health family welfare	12.18	15041	26.14	200.44	1380.82	15691.44	38883.37
Water supply sanitation	-	-	-	-	518.50	6566.73	22583.21
Housing & Urban	-	-	-	-	312.87	3666.08	10988.17
Social welfare	-	-	-	64.57	292.50	9609.46	21402.32
Others	0.26	0.74	-	14.72	203.18	906.42	2845.67
Total 2.0	**46.12**	**48.25**	**83.28**	**698.86**	**6082.11**	**71343.97**	**182758.18**
Economic Services							
Agri. & Allied Services	8.24	25.78	29.16	250.89	2028.31	24521.54	40553.84
Power	6.06	11.20	16.40	115.10	2591.22	29612.54	141742.70
Industrial & Minerals	43.27	27.14	43.80	40.80	729.61	4045.16	9282.70
Road / Bridges	25.26	34.65	59.83	554.52	1699.69	2279.90	3605.02
Road/transport/com	-	-	-	295.44	-	-	-
Tourism	-	-	-	-	97.58	1051.89	2476.89
Irrigation & FC	3.23	17.83	14.13	64.90	29.51	5719.48	15914.10
Forests	20.15	20.62	26.59	133.68	1046.86	5840.75	16117.31
Others	-	-	-	-	760.29	1097.82	25595.10
Total 3.0	**106.21**	**137.22**	**189.91**	**1455.33**	**8983.07**	**74169.08**	**255287.66**
Grand Total	**407.57**	**410.98**	**511.85**	**3246.81**	**18983.73**	**252635.42**	**775416.61**

Annexure-8.03

(Ref. Para 8.7.1)

CAPITAL EXPENDITURE AND CAPITAL RECEIPTS

01. CAPITAL INFRASTRUCTURE

	Years/Amount (Rs. lakhs)						
	1947-48	48-49	54-55	65-66	79-80	94-95	2003-04

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General Services							
Public works	1.88	0.86	79.24	479.41	256.18	1331.50	3760.76
Others	0.84	0.75	0.54	-	-	-	3076.41
Total	**2.72**	**1.61**	**79.78**	**479.41**	**256.18**	**1331.50**	**6837.17**
Social Services							
Education Art & Cult	-	-	13.24	-	267.38	1093.81	7904.85
Health & family welfare	-	-	17.07	118.53	439.49	1504.94	4430.39
Water supply & Sanitation	-	-	24.16	-	1598.54	13600.73	28200.18
Housing	-	-	1.99	-	26.33	-	1079.52
Urban Development.	-	-	-	-	319.52	-	3716.67
Social welfare	-	-	-	-	-	992.10	3243.15
Others	-	-	-	-	33.01	-	67.32
Total	**-**	**-**	**56.46**	**118.53**	**2684.27**	**17191.58**	**48642.11**
Economic Services							
Agr. & Allied services	-	-	39.27	-	1234.29	6285.70	30244.10
Irrigation & flood control	-	3.66	66.73	190.82	1477.75	2081.45	9847.63
Industry Minerals	(-)3.75	(-)2.67	16.85	182.57	781.71	735.21	3406.95
Transport & Com.	0.07	-	-	76.92	1234.92	6626.09	24355.68
Tourism	0.23	0.01	8.11	-	-	1369.04	2469.25
Power	1.47	0.95	61.64	262.10	1818.28	27109.88	55210.18
Forest	0.03	0.03	6.16	7.32	8.40	508.74	1749.12
Trading by Govt.	-	-	198.76	907.73	10.02	355.00	-
Others	-	0.05	-	-	570.75	2723.16	5285.63
Total	**-1.95**	**2.03**	**397.52**	**1627.46**	**7136.12**	**47794.27**	**132568.54**
Total 01	**0.77**	**3.64**	**-**	**2225.40**	**10076.57**	**66317.35**	**188047.82**

02. Other Capital Expenditure

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	Years/Amount (Rs. lakhs)						
	1947-48	48-49	54-55	65-66	79-80	94-95	2003-04
Loans & Advances	-	-	-	219.66	443.33	3691.32	6829.56
Internal debts	-	-	-	1469.03	2052.42	199673.86	829234.93
Loans from GOI	-	-	506.55	14.61	960.28	26883.00	122044.22
Small Saving/ PFs	-	-	30.31	57.13	647.74	7487.91	43968.45
Reserve Funds	69.40	49.49	-	-	9.35	6459.59	2915.85
Deposits & Adv.	345.36	614.15	445.19	803.17	6292.65	25512.96	99226.71
Suspense & Misc.	105.42	156.28	-	-	7564.88	11903.25	23780.09
Remittances	2392.29	2016.52	4596.16	3908.19	69270.14	699825.19	1642506.18
Total 02	**2912.47**	**2836.44**	**5578.21**	**6471.79**	**87240.79**	**981437.08**	**2770505.99**
Total Capital Expenditure (01+02)	**2913.24**	**2840.08**	**5913.21**	**8697.19**	**97317.36**	**1047754.43**	**2958553.81**

03. Capital Receipts

	1947-48	48-49	54-55	65-66	79-80	94-95	2003-04
Loans & Advances	-	-	316.76	47.33	143.40	232.05	454.03
Internal debts	-	-	-	1449.36	2116.88	195158.64	931575.43
Loans from GOI	105.00	95.00	424.00	1462.61	9745.75	24790.23	71848.63
Small Saving/ PFs	-	-	20.10	151.20	1328.77	18115.72	71162.40
Reserve Funds	79.05	60.99	-	-	1143	8396.61	16695.03
Deposits & Adv.	333.11	609.88	453.54	789.79	7913.16	24729.97	82032.25
Suspense & Misc.	151.51	278.18	-	-	4133.30	13307.37	35865.10
Remittances	2385.66	2031.53	4738.91	4095.52	71213.07	706273.34	1701090.10
Total 03	**3054.33**	**3075.58**	**5953.31**	**7995.81**	**96605.76**	**991003.93**	**2910723.07**

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Annexure 8.04

(Ref. Para 8.8.2)

Recommendations of Dr. Madhav Godbole Committee:

1. It is necessary to review all economic and other laws to create a framework conducive to economic reforms in the State. All state government departments should review the legislations with which they are administratively concerned to be remitted to a Law Commission to be set up for the purpose.
2. Pending these actions, all works and projects falling within the purview of the local bodies may be transferred to them along with the budget provisions and staff.
3. A number of important changes in the administration of major taxes should be brought about. A tribunal to decide cases pertaining to the major taxes to avoid large revenues remaining locked up pending decisions on the court cases be set up. Specialized cadres of officers be created for dealing with, major taxes. An entry tax on motor vehicles to deal with the evasion of sales tax should be introduced. The rate of passenger tax be revised to 20 per cent of the fare. The facility of payment of lump sum annual tax needs to be withdrawn. The tax on professions, trades, callings and employment should be notified early.
4. A number of sources of non-tax revenues need to be tapped or their existing rates suitably enhanced. These include irrigation rates, drinking water charges, rent for government accommodation, recovery of house rent arrears, upward revision of the monthly charge for furnished accommodation, charging of penal interest at higher rates for delayed payments, and revision of lease rent for evacuee properties. In so far as government guarantees are concerned, there should be a statutory ceiling on such guarantees. A fee of 1 per cent of the guaranteed amount be charged and credited to a special fund to be created. An annual statement on guarantees may be placed on the table of the Legislature.
5. The state also needs to tap other sources such as service taxes, foreign aid and small savings. The different ways in which the potential of land as a resource should be tapped.
6. Management of expenditure is as important, as mobilization of revenues. A comprehensive expenditure strategy should be evolved. This includes restraining the growth of employment in the government sector, computerization, zero based budgeting, rigorous ban on opening of personal

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ledger accounts, review of subsidies and user charges, close monitoring of public sector enterprises, review of schemes and programmes to detect leakage and mis-utilization of funds, enactment of a legislation of right to information, presentation of performance budgets, reduction of paperwork, bringing out a white paper on public expenditure, and appointment of an administrative reforms commission.

7. With the free flow of food grains among the States, self-sufficiency in food need no longer be the paramount objective. Instead, the State must exploit fully its comparative advantages. In view of growing marginalization and percelization of agriculture holdings, increasing agricultural productivity and efficiency is a much more challenging task in the State compared to elsewhere. It is important that land consolidation, wherever feasible, is taken up on an urgent basis. Substantial support of agricultural research, extension services, improved package of practices and timely availability of inputs of standard quality is imperative. Adaptive research has to be the cornerstone of the agricultural strategy.

8. There are a number of weaknesses in the data-base of the State and these need to be rectified in a time-bound manner.

9. Diversification of horticulture needs to be pursued further. This would call for further diversification of domestic markets and exploration of export potential. Integrated management of the horticultural sector should be the basic framework of the strategy and State intervention in marketing of horticultural produce needs to be drastically minimized. Special emphasis needs to be placed on processing units in the private sector.

10. The thrust areas in sericulture should be increase ;in cocoon production, improvement in productivity, important in quality of cocoons/silk, and value addition in cocoons. In view of its large employment potential, the state government needs to make special efforts to revive and rejuvenate this industry.

11. Special efforts need to be made for propagation of fish culture. Periodical evaluation of the work of the trout hatcheries and the other state-owned hatcheries and fish farms should be done. Development of fisheries should be viewed as an important allied agricultural activity which can strengthen the productive base of the economy and generate self-employment. Private investment be attracted to the sector in a much larger measure.

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12. Social forestry programme needs much greater emphasis. It is also necessary to undertake cost-benefit analysis of this scheme. Afforestation ought to be taken up as a mass movement with active participation of NGO's. Greening of Ladakh region and the cold desert scheme requires closer attention. LPG and kerosene should be made available at cheaper rates in the areas adjoining forests. Fuel consumption surveys should be conducted to chalk out a long-term strategy for the sector. Forest offence cases should be disposed of expeditiously by appointment of a special magistrate for each forest division. Database of the sector needs to be strengthened considerably. The J&K State Forest Corporation should be wound up.

13. Steps should be taken to undertake large-scale cultivation and regeneration of the medicinal flora of the State. A prospective plan should be drawn up for development of pharmaceutical industry in the State. The Forest Department should evolve suitable regulations to ensure the harvesting of medicinal plants on a sustainable basis. The Kuth Act should be repealed. There is a strong case for encouraging ex situ cultivation of medicinal plants on a large scale by private individuals and institutions. Research needs to be intensified Greater awareness needs to be created among local communities on medicinal flora. Database for the sector needs to be strengthened.

14 The Wildlife (Protection) Act of Government of India should be extended to the State with such modifications as may be appropriate and the existing State Act on the subject repealed. Greater vigilance is required to protect the wildlife in national parks/sanctuaries/reserves. Suitable habitats in Ladakh region should be identified for declaration as additional sanctuaries. Conservation studies should be undertaken for particular species. A zoo should be established exclusively for high altitude animals.

15. An organization patterned after the Board of Industrial and Financial Reconstruction (BIFR) should be set up to deal with the problem of sickness in small-scale units.

16. Power is one of the sectors of crucial importance in the State, which needs total restructuring. The State Electricity Board be given real powers, functions and autonomy; making the Power Development Corporation responsible for generation and transmission down to 220 KV; and redefining the role of the power department of the state government. It

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has been proposed that private investment may be sought in the new hydro power generation projects on either build own-operate and transfer basis or on build-own and operate basis. Selective privatization of power distribution in certain areas of Jammu and Srinagar has also been suggested. It is also proposed that a statutory electricity tariff regulatory commission be set up by the State.

17. Some SOEs need to be clubbed together while some SOEs need to be re-engineered. Wherever the units can not be privatized and have to be closed, the staff should be given the exgratia amount equal to the last pay drawn sitting at home till their respective dates of superannuating. In this period, they should have the freedom to accept any other job. Even with this liberal dispensation the state government would stand to gain by closure of these SOEs. Other recommendations include delinking the pay scales of SOEs from those of the state government, induction of professsional's on the board of directors, giving real autonomy to the SOEs, and total stoppage of ad-hoc appointments.

18. It would not be easy to turn around the state road transport corporation (SRTC). The market share of SRTC is just 7 percent. The committee, therefore, proposes winding up the corporation. The staff could be offered the same dispensation as proposed earlier in the case of SOEs which are to be closed down. But if, for any reasons, this is not considered. The role of private operators should be increased so that the social obligations of the state government to provide bus services to rural areas could be reduced.

19. The strategy for promotion of tourism should be aimed at promoting eco-friendly tourism. The emphasis should not be on mass tourism but high-value tourism, which can make substantial contribution to State Domestic Product (SDP). It is also imperative that the private sector should be the engine of growth for this sector; New locations which have tourism potential need to be identified and developed in all the three regions of the State.

20. High dropout rate from schools is a major problem in the education sector. 10+2 should be a major terminal point. Vocationalisation of secondary stage should be pursued as an important objective. The choice of traders should be aimed at promoting self-employment. The State should withdraw the subsidy for higher education in a phased but

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time-bound manner. Education upto university level should continue to be free only for women for the next ten years. The State should encourage the private sector to invest in education, without looking to the government for financial support. No new universities should be established by the state government. An apex panel of experts should be appointed to examine the whole range of issues pertaining to educational reforms.

21. In so far as the employment sector is concerned, the committee does not recommend launching a social security scheme for the educated unemployed. Employment in the state government can no longer be counted upon to relieve unemployment in the State. Special efforts need to be made to promote self-employment. In view of limited avenues for employment in the State, employment in central government offices, central public sector undertakings and private sector industry and trade outside the State will have to be encouraged by preparing candidates for the purpose.

22. The state government needs to make the policy of public distribution system (PDS) more focused on the poorer sections of the population requiring support.

23. In view of limited availability of land and pressure of population, a rational land use policy for the State should be evolved. The State should confine its activities to laying down proper policy and legislative framework, development of infrastructure, and careful and rigorous implementation of the Master Plans drawn up form time to time. The construction of housing should be left to the cooperative societies and the private sector.

24. The state government should make concerted efforts to invite private sector investment. Towards this end, it should prepare a list of all infrastructure projects, which can be offered to the private sector for investment. Thought should be also be given to the incentives and facilities which can be extended to the private sector. The state government should also indicate the projects in which it will be prepared to take minority share capital. A comprehensive policy on the subject be announced in the Legislature to enthuse the private sector.

25. Inter-district imbalances persist. Special efforts need to be made to evolve development strategies for these districts Weight age needs to be given to these districts in the allocation of plan and non-plan development funds. Reappropri-

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ation of funds outside these districts should not be permitted. In allocation of funds, special weight age should be given to the peculiar problems of Ladakh region. Committed expenditure of the plan should be treated as no-plan expenditure. Adequate provision should be made for maintenance of assets. The question of non-lapsability of grants for central sector schemes in Ladakh region should be taken up with the central government.

26. Government of India should write off the security-related expenditure; give the dispensation of 90 percent grant element and 10 percent loan element in central assistance given to the State for the period prior to 1990-91; give time bound financial assistance for rehabilitation of migrants; declare Srinagar as an international airport; redressal of the grievances of the State regarding the Indus Water Treaty; giving one time assistance for clearance of the overdraft; and setting apart a special quota for the recruitment of persons from J&K in the central government offices and central public sector enterprises.

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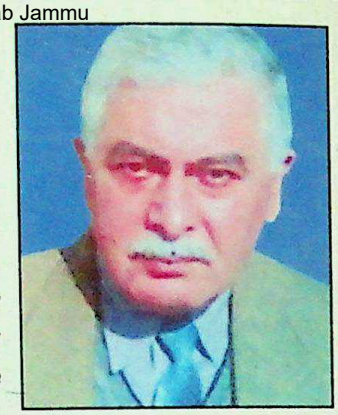

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Dewani has been a member of the J&K Accounts Service. He rose to the rank of a major head of department and worked as Director Finance, J&K State Power Development Corporation & Director J&K State Funds organization. Responsible for compilation of the budget as head of the Budget Division of the State Finance Department, he introduced several new concepts of budgeting. After his retirement, he was appointed as consultant by the State Government for computerization of the treasury working.

Dewani heads M/s. Avinash & Avinash a leading Industrial Investment Consultancy of the J&K State and in that capacity has provided consultancy to about 300 industrial entrepreneurs for setting up their own ventures. This organization under his leadership has also developed MIS for the efficient and effective functioning of the industrial sector of the State.

Two books titled "Jammu & Kashmir State's Industrial Policy" and" J&K State Industrial Policy 2002-2015" so far brought out by the consultancy and authored by Dewani have been received well and appreciated by the industrialists and all those connected with industrial development of this border state of the country. The present book is an attempt to create awareness about importance of a state budget, how the forecasts should be conceived, developed, adopted, implemented and evaluated to establish relationship between the inputs and outputs for public appreciation. In recognition of his contribution in this filed, Dewani has been given Rashtrya Rattan Award by GEC of India in August, 2004.

Dewani has a multifaceted personality. He is involved in social work at a bigger scale as the president of Hindu Education Society Kashmir, Vice President AIKS and Chairman of a number of other voluntary organizations. He has good flavor for writing and has a number of articles to his credit on the financial management besides the cultural and social issues. At present he is also bureau chief of the 'Naad' a monthly journal on Kashmir affairs.

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